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COMPANY DATA:
COMPANY CONFORMED NAME: DIGITAL EQUIPMENT CORP
CENTRAL INDEX KEY: 0000028887
STANDARD INDUSTRIAL CLASSIFICATION: COMPUTER & OFFICE EQUIPMENT [3570]
IRS NUMBER: 042226590
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FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 FOR THE FISCAL YEAR ENDED JUNE 28, 1997

or

[ ] Transition report pursuant to Section 13 or 15(d)of the Securities Exchange Act of 1934 For the transition period from to .

Commission file number 1-5296

DIGITAL EQUIPMENT CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	04-2226590
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Ident. No.)

111 Powdermill Road, Maynard, Massachusetts 01754-1499

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (978) 493-5111

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered (a)
Common Stock, par value $1 per share	New York Stock Exchange Pacific Stock Exchange Chicago Stock Exchange
Depositary shares each representing one-fourth of a share of 8-7/8% Series A Cumulative Preferred Stock, par value $1 per share	New York Stock Exchange

(a) In addition, shares of Common Stock of the registrant are listed on certain stock exchanges in Switzerland and Germany.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (a) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (b) has been subject to such filing requirements for the past 90 days. YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. [ ]

As of September 15, 1997, 147,773,294 shares of the registrant's Common Stock, par value $1, were issued and outstanding. The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of September 15, 1997 was approximately $6.2 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 1997 Annual Report to Stockholders are incorporated by reference in Part II hereof.

Portions of the registrant's Proxy Statement for its 1997 Annual Meeting of Stockholders, scheduled to be held on November 13, 1997, are incorporated by reference in Part III hereof.

PART I

ITEM 1. BUSINESS.

GENERAL

Digital Equipment Corporation, a Massachusetts corporation founded in 1957, is a world leader in implementing and supporting networked business solutions in multivendor environments based on high performance platforms and global service and support. Digital - working with its business partners - provides a complete range of information processing solutions from personal computers to integrated worldwide information systems. The Corporation does business in over 100 countries, deriving more than 65% of its revenue from outside of the United States and developing and manufacturing products in the Americas, Europe and Asia-Pacific.

The term "Corporation" or "DIGITAL" when used herein refers to Digital Equipment Corporation or Digital Equipment Corporation and its subsidiaries, as required by the context.

For the last five fiscal years, the percentage of total operating revenues contributed by the Corporation's principal classes of products was as follows:

	1997	1996	1995	1994	1993
Product sales	55.2%	57.4%	55.1%	53.5%	52.8%
Service revenues	44.8%	42.6%	44.9%	46.5%	47.2%
	100.0%	100.0%	100.0%	100.0%	100.0%

Service revenues are derived principally from DIGITAL and multivendor hardware and software product services, network and systems integration services and outsourcing and resource management services.

PRODUCTS

Most of the Corporation's systems are general purpose digital computers, designed to perform, interpret and record computations on collected data or act as servers providing computing resources across a network, the World Wide Web, and through distributed application environments. The Corporation offers a broad range of computer clients and servers based on DIGITAL's Alpha(TM) and VAX(R) architectures, and the Intel(R) X86 and Pentium(R) architectures.

COMPUTER SYSTEMS: The Corporation's 64-bit, reduced instruction set computing ("RISC") architecture known as "Alpha" is designed to support multiple operating systems and to be the foundation for a leading high performance computer system family. The Corporation offers a complete line of Alpha-based products, ranging from chips and boards to high performance workstations and servers to larger general purpose computer systems. Alpha supports three major operating systems: Digital UNIX(R)-- the Corporation's 64-bit UNIX(R) operating system, the Corporation's OpenVMS(TM) operating system and Microsoft Corporation's ("Microsoft") Windows NT(R) operating system. As part of DIGITAL's strategic partnership with Microsoft, Microsoft is working

with the Corporation to develop a 64-bit version of the Windows NT operating system, which would support Alpha as its first 64-bit implementation.

The Corporation also offers a full range of Intel-based personal computers, workstations and servers. These products support Microsoft's Windows(R), Windows 95(R) and Windows NT operating systems. During fiscal 1997, the Corporation introduced new server, desktop and mobile computer products incorporating the most up-do-date X86-based microprocessor chips. The Corporation's offerings include the Prioris(TM) line of server products, Celebris(TM) high-end desktop products, Venturis(TM) low-end desktop products and the VP HiNote(TM) line of mobile computer products.

The Corporation's 64-bit Alpha-based servers provide a high-performance platform for a wide spectrum of business and enterprise-level applications, including memory and transaction intensive applications in areas such as data warehousing, transaction processing and scientific and technical computing. 64-bit database, data server and data warehousing applications from Oracle Corporation and other database vendors implemented on the Corporation's high performance, 64-bit Alpha-based systems process data significantly faster than similar applications running on currently available 32-bit systems. DIGITAL's Alpha-based systems also serve as a computing platform in the emerging Internet and corporate Intranet environments.

In March 1997, the Corporation announced a faster, 600MHz version of its high performance Alpha 21164 microprocessor for workstations and servers. These top-performing chips are uniquely suited to the high performance requirements of visual computing applications such as video conferencing, modeling, video editing, multi-media authoring, image rendering and animation.

STORAGE SYSTEMS, MICROPROCESSORS AND NETWORK PRODUCTS: The Corporation's offerings include its StorageWorks family of peripheral and data storage products for use with its computer systems which are designed to provide high-performance, flexible and scaleable enterprise-wide storage solutions in multivendor environments.

The Corporation has developed, and manufactures and sells a family of high performance, 64-bit Alpha microprocessors which are used in sophisticated computer applications. The Corporation has established relationships with Samsung Electronics Co., Ltd. and Mitsubishi Corp., through which it has granted each of Samsung and Mitsubishi the right to manufacture and market the Corporation's Alpha microprocessors and incorporate them into their computer systems and other products. The Corporation also manufactures and sells the StrongARM microprocessor, a low-cost, low-power, high performance chip designed to power network computers, set-top boxes and other Internet appliances.

The Corporation is also a manufacturer and supplier of network components, including hubs, routers, switches and adapters. The Corporation's enVISN (Enterprise Virtual Intelligent Switched Network) open network architecture creates flexible virtual networks linking users in different groups and sites by combining virtual LAN (local area network) technology, distributed routing and high speed switching with centralized, policy-based administration.

SOFTWARE: The Corporation designs, develops or acquires from third parties and distributes under license various software products for use on its

computer systems and computer systems from other vendors. The Corporation, independently and through partners, offers software products consisting of operating systems, communication and networking software, run-time services (such as data/information handling and graphical user interfaces), language compilers, mail and messaging, productivity tools, production systems (including databases and transaction processing monitors), office and workgroup software frameworks and other application software. The Corporation's software offerings are intended to promote open client/server computing and, to this end, are designed to industry-standard interfaces that enable applications to work across different platforms and operating systems and enable customers to integrate and manage multivendor environments.

FX!32(TM), DIGITAL's translation and emulation software, allows Alpha-based systems to run Windows NT and Windows 95 32-bit software applications. The Corporation is developing a set of tools and utilities that will enable customers and software developers to write applications on Windows NT and deploy them in and across the Windows NT, DIGITAL 64-bit UNIX and OpenVMS computing environments. The Corporation has also established partnerships with leading independent software vendors to develop software applications for its 64-bit UNIX and OpenVMS operating systems.

The Corporation continues to make available without charge over the World Wide Web its AltaVista Internet Search Service which helps Internet users find information anywhere on the World Wide Web or in Internet news groups. The Corporation believes that the AltaVista Internet Search Service is among the fastest and most comprehensive Web indices available. The Corporation also offers a portfolio of software products and services for the integrated Internet/intranet environment.

SERVICES

The Corporation provides a comprehensive portfolio of technical consulting, integration, support and maintenance services through a global network of approximately 23,000 employees, as well as service delivery partners, to help customers plan, implement, manage and maintain their information technology solutions.

The Corporation's service offerings include maintenance and support services for the Corporation's software and hardware products, as well as for software and hardware products manufactured by other companies; information systems consulting; technical and application design services; systems integration and project management services; network design, integration and support services; and outsourcing and resource management services.

The Corporation has established a number of services alliances with companies in the information technology industry. To support customer's migration to Windows NT-based platforms, the Corporation has trained, and Microsoft has certified, a professional services workforce of approximately 1,600 engineers dedicated to providing comprehensive systems integration and service solutions. Under the Corporation's alliance with MCI Communications

Corporation ("MCI") and Microsoft, MCI delivers Internet and Intranet products and services to MCI subscribers based upon the Corporation's Alpha servers, Microsoft's Windows NT operating system, and Microsoft Exchange(TM) and Internet Explorer software products, and backed by the Corporation's support and systems integration services. The Corporation is a leading provider of mail and messaging solutions in the global enterprise environment, having announced during the fourth quarter of fiscal 1997 that it had passed the one millionth Microsoft Exchange seat under contract. The Corporation also has

been designated a preferred service provider by Computer Associates International, Inc.

SALES AND DISTRIBUTION

The Corporation directly sells, markets and supports its products and services through multiple locations throughout the world. In the fourth quarter of fiscal 1997, the Corporation refined its organizational structure, including a unified worldwide sales and marketing organization focused on providing integrated solutions to meet customers' needs.

Arrangements with third parties, including software developers, value added resellers (VARs) and authorized distributors, are an increasingly important part of the Corporation's focus on providing complete solutions to its customers and expanding distribution of its products and services through indirect channels. As more of the Corporation's products and services are distributed through indirect channel partners ("Resellers"), the Corporation's relationships with these parties, and their financial condition, become more important to the Corporation's consolidated results of operations. Resellers adjust their ordering patterns in response to market conditions. Resellers may increase orders during times of product shortages, delay orders in anticipation of new products or cancel orders if the channel already has sufficient product on hand to meet projected demand.

For the fiscal year ended June 28, 1997, approximately 5.9% of the Corporation's total operating revenues were derived directly from sales to various agencies of the U.S. Government, and no other customer of the Corporation accounted for more than 3% of total revenues.

The Corporation believes that the dollar amount of backlog is not a meaningful indication of future revenues and historically has not published such data. It has been and continues to be the Corporation's objective to minimize the time from the receipt of a purchase order to delivery of the product.

INTERNATIONAL OPERATIONS

Sales by the Corporation to customers outside the United States amounted to 67%, 66% and 65% of total operating revenues for the fiscal years ended June 28, 1997, June 29, 1996 and July 1, 1995, respectively. International sales and marketing operations are conducted through subsidiaries, by direct sales from the parent company, by resellers and through various representative and distributorship arrangements.

The Corporation's international business is subject to risks customarily encountered in foreign operations, including fluctuations in monetary exchange rates, import and export controls and the economic, political and regulatory policies of foreign governments.

See Notes A, B, C and I of Notes to Consolidated Financial Statements, incorporated by reference herein, for further information on the Corporation's international operations, including financial information concerning the Corporation's operations by major geographical area.

COMPETITION

The information technology industry is highly competitive, international in scope and comprised of many companies. The methods of competition include product performance, quality and reliability, price, service and support and marketing and distribution, among others. Present and potential competition in the various markets served by the Corporation comes from firms of various sizes and types, some of which are larger and have greater resources than the Corporation. Firms not now in direct competition with the Corporation may introduce competing products and services in the future. It is possible for companies to be at various times competitors, customers and collaborators in different markets.

MATERIALS

The Corporation obtains a wide variety of components, assemblies and raw materials from a substantial number of suppliers. The Corporation has established or has available alternate sources of supply for many of these materials. The Corporation believes that the materials required for its manufacturing operations are presently available in quantities sufficient to meet demand; however, a portion of the Corporation's manufacturing operations is dependent on the timely delivery of certain sub-assemblies and components from significant suppliers. The failure of such suppliers to deliver such items on a timely basis or in sufficient quantities could adversely affect the Corporation's results of operations.

ENVIRONMENTAL AFFAIRS

The Corporation's facilities are subject to numerous laws and regulations designed to protect human health and safety and the environment. Under applicable state laws, the Corporation is incurring costs in connection with the investigation and remediation of certain properties owned and/or operated by the Corporation. Pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"), as amended, the Corporation is sharing the costs of cleaning up certain sites listed on the federal National Priorities List of Superfund Sites. In the opinion of the Corporation, compliance with these laws and regulations has not had and should not have a material effect on the Corporation's capital expenditures, results of operations or financial condition.

INTELLECTUAL PROPERTY

Intellectual property rights owned or licensed by the Corporation include patents, copyrights, trade secrets, trademarks and maskwork rights that relate to its products. While the Corporation's competitive technology position is not determined by or dependent upon any single factor, the Corporation's portfolio of patents and patent applications is of significant value to the Corporation. The Corporation takes appropriate action to enforce its intellectual property rights.

RESEARCH AND ENGINEERING

The Corporation is in an industry which is characterized by rapid technological change. In the fiscal years ended June 28, 1997, June 29, 1996 and July 1, 1995, the Corporation spent $1.01 billion, $1.06 billion and $1.04 billion, respectively, for research and engineering (R&E). At the end of fiscal 1997, the Corporation consolidated product development under the Products Division to better coordinate and focus research and development efforts. The Corporation believes that its level of R&E spending as a percentage of total operating revenues is appropriate to support current operations and to offer competitive, market-driven products.

EMPLOYEES

The Corporation had approximately 54,900 employees worldwide at June 28, 1997.

EXECUTIVE OFFICERS OF THE CORPORATION

The following table sets forth the names and ages of the ten executive officers of the Corporation and certain information relating to their positions held with the Corporation.

<TABLE>
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YEAR FIRST

NAME	AGE	PRESENT TITLE	BECAME AN EXECUTIVE OFFICER
<S>	<C>		<C>
Robert B. Palmer	57	Director; Chairman of the Board, President and Chief Executive Officer	1985
Bruce L. Claflin	45	Senior Vice President, Worldwide Sales and Marketing	1996
Harold D. Copperman	50	Senior Vice President, Digital Products Division	1996
Ilene B. Jacobs	50	Vice President, Human Resources	1985
Alexis Makris	44	Vice President and Corporate Controller	1997
Paul J. Milbury	49	Vice President and Treasurer	1996
Vincent J. Mullarkey	49	Vice President, Finance and Chief Financial Officer	1992
John J. Rando	45	Senior Vice President, Digital Services Division	1993
Thomas C. Siekman	55	Vice President and General Counsel	1993
William D. Strecker	53	Vice President, Corporate Strategy and Technology and Chief Technical Officer	1985

</TABLE>

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Executive officers of the Corporation are elected annually and hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors have been chosen and qualified. All of the executive officers named have been officers or held managerial positions in the Corporation for at least the last five years, except for Mr. Claflin and Mr. Copperman. Prior to joining the Corporation in November 1995, Mr. Claflin held various positions in marketing and product development during his 22-year career at International Business Machines Corporation, most recently serving as General Manager, Product and Brand Management for the IBM Personal Computer Company from June 1994 to October 1995, as President, IBM Personal Computer Company - Americas, from August 1993 to June 1994 and as General Manager, Mobile Computing of IBM Personal Computer Company from June 1992 to August 1993. Prior to joining the Corporation, Mr. Copperman was President and Chief Executive Officer of the Informations Systems Group of JWP Inc., a computer reseller and services company, from 1991 to 1993, and President and Chief Operating Officer of Commodore Business Machines, Inc. from 1989 to 1991.

ITEM 2. PROPERTIES

At the end of fiscal year 1997, the Corporation owned or leased approximately 24.9 million square feet of space worldwide. The Corporation occupied approximately 19.0 million square feet, leased or sub-leased to others approximately 3.3 million square feet, and due to restructuring actions, had vacant space of approximately 2.5 million square feet, most of which is available for sale or sub-lease. The total space owned or leased decreased by approximately 3.4 million square feet from the prior year. Approximately 51% of the occupied space is located in the United States; approximately 60% of the occupied space is owned. The Corporation's occupied facilities are substantially utilized, well maintained and suitable for the products and services offered by the Corporation.

ITEM 3. LEGAL PROCEEDINGS

During the fourth quarter of fiscal 1994, the Corporation was named as a defendant in several purported class action lawsuits filed in the U.S. District

Court for the Southern District of New York and the U.S. District Court for the District of Massachusetts alleging violations of the Federal securities laws arising from alleged misrepresentations and omissions in connection with the Corporation's issuance and sale of Series A 8-7/8% Cumulative Preferred Stock and the Corporation's financial results for the fiscal quarter ended April 2, 1994. The Massachusetts and New York lawsuits were all effectively consolidated into three cases, which were pending before the U.S. District Court for the District of Massachusetts. On August 8, 1995, the Massachusetts federal court granted the defendants' motion to dismiss all three cases in their entirety. On May 7, 1996, the U.S. Court of Appeals for the First Circuit affirmed in part and reversed in part the dismissal of the two cases and remanded for further proceedings.

On May 12, 1997, the Corporation filed a lawsuit in the U.S. District Court for the District of Massachusetts against Intel Corporation ("Intel"). The lawsuit alleges that Intel, through the manufacture and sale of its Pentium (R), Pentium with MMX(TM) Technology, Pentium Pro and Pentium II microprocessors, willfully infringes, and contributes to the infringement by others of, ten Digital patents protecting inventions in the area of computer architecture and microprocessor design. Digital's lawsuit seeks an injunction to prohibit Intel from using Digital's patented technology in its present and future microprocessor products, monetary damages for Intel's infringement and enhanced damages for willful infringement. On July 2, 1997, Intel answered the Corporation's lawsuit denying liability, and filed a counterclaim seeking a declaratory judgment that the patents on which the Corporation sued are invalid and unenforceable. The Corporation has replied to Intel's counterclaim stating that the patents are valid, enforceable and infringed by Intel.

On September 3, 1997, Intel filed a motion for leave to amend its answer and counterclaims, which Digital is opposing, requesting, among other things, the right to assert counterclaims against Digital claiming willful infringement by Digital of nine Intel patents through the manufacture, sale and use of certain microprocessor and related products and seeking monetary damages and injunctive relief. On September 3, 1997, Intel also filed a lawsuit in the U.S. District Court for the District of Oregon claiming willful infringement by Digital of five Intel patents through the manufacture, sale, use and service of various computer products and seeking monetary damages and

injunctive relief. Digital is in the process of assessing Intel's claims and proposed counterclaims and intends to vigorously defend against them.

On May 27, 1997, Intel filed a lawsuit in the U.S District Court for the Northern District of California against the Corporation alleging breach of contract, misappropriation of trade secrets, unlawful competition and unfair business practices and to recover personal property. Intel's lawsuit requests monetary damages and an injunction seeking the return of certain Intel proprietary information. On July 23, 1997, the Corporation answered Intel's lawsuit, denying any and all liability to Intel.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

See the section entitled "Investor information -- Information on Common Stock," which is incorporated herein by reference, appearing on page 59 of the Corporation's 1997 Annual Report to Stockholders.

ITEM 6. SELECTED FINANCIAL DATA.

See the section entitled "Eleven-year financial summary," which is incorporated herein by reference, appearing on pages 26 and 27 of the Corporation's 1997 Annual Report to Stockholders.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

See the section entitled "Management's discussion and analysis of financial condition and results of operations," which is incorporated herein by reference, appearing on pages 28 through 32 of the Corporation's 1997 Annual Report to Stockholders.

ITEM 7A. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See Note I to the consolidated financial statements, which is incorporated herein by reference, appearing on pages 47 through 50 of the Corporation's 1997 Annual Report to Stockholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and supplementary data, which are incorporated herein by reference from the Corporation's 1997 Annual Report to Stockholders, are indexed under Item 14(a)(1). See also the financial statement schedules appearing herein, as indexed under Item 14(a)(2).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

See the section entitled "Election of Directors," which is incorporated herein by reference from the Corporation's Proxy Statement for its 1997 Annual Meeting of Stockholders. See also the section entitled "Executive Officers of the Corporation" appearing in Part I hereof.

ITEM 11. EXECUTIVE COMPENSATION.

See the section entitled "Executive Compensation," which is incorporated herein by reference from the Corporation's Proxy Statement for its 1997 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

See the section entitled "Security Ownership of Directors and Executive Officers" which is incorporated herein by reference from the Corporation's Proxy Statement for its 1997 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this report:

(1) Financial statements which are incorporated herein by reference from the Corporation's 1997 Annual Report to Stockholders:

Report of Independent Accountants (page 33).

Consolidated Statements of Operations for fiscal years 1997, 1996 and 1995 (page 34).

Consolidated Balance Sheets as at June 28, 1997 and June 29, 1996 (page 35).

Consolidated Statements of Cash Flows for fiscal years 1997, 1996 and 1995 (page 36).

Consolidated Statements of Stockholders' Equity for fiscal years 1997, 1996 and 1995 (page 37).

Notes to Consolidated Financial Statements (pages 38 through 54).

Eleven-Year Financial Summary (pages 26 and 27).

Quarterly Financial Data (page 54).

The Corporation's 1997 Annual Report to Stockholders is not to be deemed filed as part of this report except for those parts thereof specifically incorporated herein by reference.

(2) Financial statement schedules:

Page	
S-1	Report of Independent Accountants
S-2	II - Valuation and Qualifying Accounts and Reserves

No other schedules are contained herein either because they are not required, not applicable or the information has been included in the financial statements or the notes thereto.

Individual financial statements of the Corporation's subsidiaries have been omitted because it is primarily an operating company and the consolidated subsidiaries are not indebted, in a material amount, to any person other than to the parent or to other consolidated subsidiaries.

(3) Exhibits:

3(a) - Restated Articles of Organization of the Corporation dated March 11, 1991 (filed under cover of Form SE as Exhibit 3(a) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 29, 1991 and incorporated herein by reference).

(b) - Articles of Amendment filed with the Secretary of State of the Commonwealth of Massachusetts on November 4, 1993 (filed as Exhibit 4.3 to the Corporation's Registration Statement on Form S-3, No. 33-51987 and incorporated herein by reference).

(c) - Certificate of Designation filed with the Secretary of State of the Commonwealth of Massachusetts on March 21, 1994 (filed as Exhibit 4.1 to the Corporation's Current Report on Form 8-K filed on March 23, 1994 and incorporated herein by reference).

(d) - By-laws of the Corporation, as amended (filed as Exhibit 3(d) to the Corporation's Annual Report on Form 10-K for the fiscal year ended July 1, 1995 and incorporated herein by reference).

4(a) - Rights Agreement dated as of December 11, 1989 between the Corporation and First Chicago Trust Company of New York, as Rights Agent (filed under cover of Form SE as Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated December 12, 1989 and incorporated herein by reference).

(b) - Indenture dated as of September 15, 1992 between Citibank, N.A. as Trustee, and the Corporation ("Indenture") (filed as Exhibit 4 to the Corporation's Registration Statement on Form S-3, No. 33-51378 and incorporated herein by reference).

(c) - Form of 7 1/8% Note Due 2002, issued under the Indenture (filed as Exhibit 4.2 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 26, 1992 and incorporated herein by reference).

(d) - Form of 8 5/8% Debenture due November 1, 2012, issued under the Indenture (filed as Exhibit 4.3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 26, 1992 and incorporated herein by reference).

(e) - Form of 7% Note Due 1997, issued under the Indenture (filed as

Exhibit 4.4 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 26, 1992 and incorporated herein by reference).

(f) - Form of 7 3/4% Debenture due April 1, 2023, issued under the Indenture (filed as Exhibit 4.2 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 27, 1993 and incorporated herein by reference).

10(a) - 1968 Employee Stock Purchase Plan (filed as Exhibit 99.1 to the Corporation's Registration Statement on Form S-8, No. 333-17049 and incorporated herein by reference).*

(b) - 1981 International Employee Stock Purchase Plan (filed as Exhibit 99.2 to the Corporation's Registration Statement on Form S-8, No. 333-17049 and incorporated herein by reference.)*

(c) - 1985 Restricted Stock Option Plan, as amended (filed under cover of Form SE as Exhibit 10(d) to the Corporation's Annual Report on Form 10-K for the fiscal year ended July 1, 1989 and incorporated herein by reference).*

(d) - 1990 Equity Plan, as amended (filed as Exhibit 10(a) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 30, 1995).*

(e) - 1990 Stock Option Plan for Nonemployee Directors, as amended (filed as Exhibit 10(f) to the Corporation's Annual Report on Form 10-K for the fiscal year ended July 1, 1995 and incorporated herein by reference).*

(f) - 1995 Equity Plan, as amended.*

(g) - 1995 Stock Option Plan for Nonemployee Directors, as amended.*

(h) - Deferred Compensation Plan for Non-Employee Directors as Amended and Restated Effective 18 May 1987, and as further amended on April 22, 1991 and on June 17, 1996 (filed as Exhibit 10(g) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 29, 1996 and incorporated herein by reference).*

(i) - Deferred Compensation Plan for Executives (filed as Exhibit 10(h) to the Corporation's Annual Report on Form 10-K for the fiscal year ended June 29, 1996 and incorporated herein by reference).*

(j) - Retirement Arrangement for Non-Employee Directors, as amended.*

(k) - Form of Indemnification Agreement in effect between the Corporation and each of its officers and directors (filed as Exhibit 10(g) to the Corporation's Annual Report on Form 10-K for

the fiscal year ended July 2, 1988 and incorporated herein by reference).*

(l) - Digital Equipment Corporation SAVE Restoration Plan (as established effective as of July 1, 1995) (filed as Exhibit 10(b) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 and incorporated herein by reference).*

(m) - Letter Agreement from the Corporation to Bruce L. Claflin dated October 19, 1995.*

(n) - Digital Equipment Corporation Cash Account Pension Restoration Plan (filed as Exhibit 10 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 28, 1996 and incorporated herein by reference).*

11 - Computation of net income/(loss) per common share and common share equivalent.

13 - The Corporation's 1997 Annual Report to Stockholders, certain portions of which have been incorporated herein by reference.

21 - List of Subsidiaries.

23 - Consent of Independent Accountants.

27 - Financial Data Schedule.

* Indicates management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K:

The Corporation filed with the Securities and Exchange Commission a Current Report on Form 8-K on May 13, 1997 which reported the filing of a lawsuit against Intel Corporation as described in Item 2, Legal Proceedings, of this Annual Report on Form 10-K.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

DIGITAL EQUIPMENT CORPORATION
(Registrant)

Date: September 16, 1997

By /s/ Robert B. Palmer

ROBERT B. PALMER
CHAIRMAN OF THE BOARD,
PRESIDENT AND CHIEF EXECUTIVE OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

Signature	Title	Date
/s/ Robert B. Palmer ROBERT B. PALMER	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer) and Director	September 16, 1997
/s/ Vincent J. Mullarkey VINCENT J. MULLARKEY	Vice President, Finance and Chief Financial Officer (Principal Financial Officer)	September 16, 1997
/s/ Alexis Makris ALEXIS MAKRIS	Vice President and Corporate Controller (Principal Accounting Officer)	September 16, 1997
/s/ Vernon R. Alden VERNON R. ALDEN	Director	September 16, 1997
/s/ Colby H. Chandler COLBY H. CHANDLER	Director	September 16, 1997
/s/ Arnaud de Vitry ARNAUD DE VITRY	Director	September 16, 1997
/s/ Frank P. Doyle	Director	September 16, 1997

- -------------------------
FRANK P. DOYLE

/s/ Kathleen F. Feldstein Director September 16, 1997
- -------------------------
KATHLEEN F. FELDSTEIN

/s/ Thomas P. Gerrity Director September 16, 1997
- -------------------------
THOMAS P. GERRITY

/s/ Thomas L. Phillips Director September 16, 1997
- ----------------------
THOMAS L. PHILLIPS

/s/ Delbert C. Staley Director September 16, 1997
- ---------------------
DELBERT C. STALEY

REPORT OF INDEPENDENT ACCOUNTANTS

Our report on the consolidated financial statements of Digital Equipment Corporation has been incorporated by reference in this Form 10-K from page 33 of the 1997 Annual Report to Stockholders of Digital Equipment Corporation. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in the index on page 11 of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

/s/ Coopers & Lybrand L.L.P.

COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
July 24, 1997

SCHEDULE II

DIGITAL EQUIPMENT CORPORATION

Valuation and Qualifying Accounts and Reserves

(In Thousands)

<TABLE>
<CAPTION>

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at beginning of period	Charged to operations	Charged to other accounts	Deductions from reserves(a)	Balance at end of period
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for Possible Losses on Accounts Receivable					
Year ended:					
June 28, 1997	$182,033	112,117	--	30,387	$263,763
June 29, 1996	$150,655	61,140	--	29,762	$182,033
July 01, 1995	$111,925	55,307	29,886(b)	46,463	$150,655

</TABLE>

(a) Uncollectible accounts and adjustments.
(b) Includes recovery of accounts previously written-off.

</TEXT>
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<DOCUMENT>
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<SEQUENCE>2
<DESCRIPTION>1995 EQUITY PLAN
<TEXT>

EXHIBIT 10(f)

DIGITAL EQUIPMENT CORPORATION
1995 EQUITY PLAN

SECTION 1 -- PURPOSE

The Digital Equipment Corporation 1995 Equity Plan (the "Plan") is intended to advance the interests of Digital Equipment Corporation (the "Corporation") and its stockholders by providing equity-based incentives to better align the interests of key employees with those of stockholders, and to attract, retain and motivate such employees.

SECTION 2 -- ADMINISTRATION

The Plan shall be administered by a committee appointed by the Board of Directors of the Corporation (the "Committee"), which shall consist of not fewer than two members of the Corporation's Board of Directors. All members of the Committee must be "disinterested administrators" within the meaning of Rule 16b-3 or any successor provision ("Rule 16b-3") under the Securities Exchange Act of 1934, as amended (the "1934 Act") and "outside directors" within the meaning of Section 162(m) or any successor provision of the Internal Revenue Code of 1986, as amended (the "Code"), if required for compliance with Rule 16b-3 or Section 162(m) of the Code, as the case may be. Any authority or power granted in the Plan to the Committee shall also be deemed to be granted to the Board of Directors, and any action permitted to be taken or determination permitted to be made by the Committee may also be taken or made by the Board of Directors; provided, however, that to the extent required by Rule 16b-3 and/or Section 162(m) of the Code with respect to specific grants of Awards, such power or authority shall only reside in and such actions or determinations shall only be made by an administrator or administrators in compliance with Rule 16b-3 or Section 162(m) of the Code, as the case may be. The Board of Directors may also establish a committee of one or more members of the Corporation's Board of Directors who are also officers of the Corporation for the purposes of administering grants of Awards under the Plan to Employees who are not subject to the provisions of Section 16 of the 1934 Act. If such a committee is established, it shall have all the power and authority of the Committee under the Plan with respect to such Awards.

Subject to the provisions of the Plan, the Committee shall have the authority to select the Employees who are eligible to participate in the Plan, to determine the Awards to be granted to each Employee, to determine the time or times when Awards shall be exercisable or when re- strictions, conditions and contingencies shall lapse, to establish any other restrictions, conditions and contingencies on Awards in addition to those prescribed by the Plan and to determine whether any Option granted shall be an ISO or a Non-Qualified Option. The Committee shall also prescribe the form of agreements or other instruments under the Plan and the legends, if any, to be affixed to the certificates representing shares of Stock to be issued.

The Committee shall have full authority to interpret the Plan, to grant waivers of Plan restrictions, to amend the provisions of Award instruments and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper, all of which powers shall be executed in the best interests of the Corporation and in keeping with the purposes of the Plan. Such powers shall include, but shall not be limited to, the power to modify or amend the Plan and to adopt such procedures, subplans and the like as may be necessary to comply with provisions of the laws of other countries in which the Corporation or any subsidiary of the Corporation may operate in order to assure the viability of Awards granted under the Plan and to enable Employees employed in such other countries to receive advantages and benefits under the Plan and consistent with such laws.

The determinations of the Committee in the administration of the Plan shall be final and conclusive unless otherwise determined by the Board of Directors.

SECTION 3 -- SHARES OF STOCK SUBJECT TO THE PLAN

(a) Shares Available for Issuance. The shares of stock available for issuance under the Plan shall be authorized but unissued shares of the Corporation's Common Stock or previously issued shares of the Corporation's Common Stock reacquired by the Corporation in any manner and held in its treasury ("Stock"). No fractional shares of Stock shall be delivered under the Plan.

(b) Maximum Number of Shares Available for Issuance. Subject to adjustment as provided in Section 7.7 below, the maximum number of shares of Stock available for the grant of Awards under the Plan from the date of its adoption by the Board of Directors until June 29, 1996, shall be the maximum number of shares of Stock available for issuance under the Corporation's 1990 Equity Plan (the "1990 Plan") as of the date of approval of the Plan by the Corporation's stockholders, plus any shares of Stock subject to Awards under the 1990 Plan that expire unexercised or are forfeited, terminated, canceled (in whole or in part) or in any other manner are not issued to an Employee at any time. Subject to adjustment as provided in Section 7.7 below, the maximum number of shares of Stock available for the grant of Awards under the Plan for each fiscal year subsequent to the fiscal year ending on June 29, 1996, but prior to the beginning of the fiscal year commencing on June 28, 1998, shall be two percent (2%) of the total number of issued shares of the Corporation's Common Stock (including treasury shares) as of the first day of such fiscal year. Such maximum number of shares shall be increased in any fiscal year by the number of shares of Stock available for the grant of Awards hereunder in the previous fiscal year or years but not covered by Awards granted hereunder in such fiscal year or years since the adoption of the Plan, plus any shares of Stock subject to Awards under the 1990 Plan or the Plan that expire unexercised or are forfeited, terminated, canceled (in whole or in part), or in any other manner are not issued to an Employee, plus any shares of Stock tendered to the Corporation as full or partial payment for the exercise of any Option under the 1990 Plan or the Plan and the payment of any withholding taxes arising therefrom.

(c) Limitations on Issuance. Notwithstanding any other provision of the Plan, in no event shall more than 5,000,000 shares of Stock be cumulatively available for the issuance of Stock pursuant to ISO's granted under the Plan, nor shall more than 1,000,000 shares of Stock be cumulatively available for grant pursuant to Restricted Stock Awards, Unrestricted Stock Awards and Stock Unit Awards. Notwithstanding any other provision of the Plan, no Employee may be granted in any fiscal year beginning with the fiscal year commencing July 2, 1995, in the aggregate, Awards relating to, in the aggregate, more than one million (1,000,000) shares of Stock. In all events, determinations under the preceding sentence shall be made in a manner that is consistent with Section 162(m) of the Code and the regulations promulgated thereunder.

(d) Dividends. Notwithstanding the foregoing, any dividend or dividend equivalent paid or credited to an Employee in shares of Stock or Stock Units pursuant to Sections 5.4(b) or 5.5 below shall not be subtracted from the maximum number of shares available for the grant of Awards under the Plan or the cumulative aggregate number of shares available for grant pursuant to Restricted Stock Awards, Unrestricted Stock Awards and Stock Unit Awards.

(e) Expiration, Forfeiture, Cancellation or Settlement in Cash. Shares of Stock subject to Awards that expire unexercised or are forfeited, terminated, canceled (in whole or in part), or in any other manner are not issued to an Employee (including shares of Stock that are not issued to an Employee pursuant to Awards settled in cash in lieu thereof), shall become available immediately for the future grant of Awards under the Plan.

SECTION 4 -- ELIGIBILITY

Awards may be granted under the Plan only to Employees of the Corporation or of a subsidiary of the Corporation. The term "Employees" shall include officers as well as all other employees of the Corporation or of a subsidiary of the Corporation. Members of the Committee and members of the Board of Directors who are not Employees of the Corporation or of a subsidiary of the Corporation shall not be eligible to participate in the Plan. Awards may be granted to the same Employee on more than one occasion.

SECTION 5 -- TYPES OF AWARDS

5.1 AUTHORITY.

The Committee shall have the authority to grant Awards singly, in combination or in tandem. The term "Awards" includes options, stock appreciation rights, awards of Stock of the Corporation and awards of stock units or phantom shares of stock, all on the terms and conditions hereinafter established.

5.2 OPTIONS.

(a) Definition of Options. An "Option" is an Award entitling the recipient upon exercise of the Option to purchase Stock at a specified price for a specified period of time. Both "incentive stock options" ("ISO's"), as defined in Section 422 of the Code, or any successor provision, and Options that are not incentive stock options ("Non-Qualified Options"), may be granted under the Plan. Instruments evidencing ISO's shall contain such terms and conditions as are required under applicable provisions of the Code.

(b) Exercise Price. The Committee shall determine the exercise price of an Option which shall not be less than 100% of the Fair Market Value per share of the Stock on the date the Option is granted. For purposes of the Plan, "Fair Market Value" of a share of Stock on a given date will be the average of the high and low selling prices of the Corporation's Common Stock in the New York Stock Exchange Composite Transactions Index on such date, or if not a business day, as of the last business day for which prices are available prior to such date.

(c) Duration of Options. The Committee shall determine the latest date on which an Option may be exercised which shall be no later than the date that is ten years after the date the Option was granted; provided, however, the Committee shall have the power and authority to provide that the date on which any Option (except for an ISO) may be exercised be later than such date if it determines that such a longer term may be necessary to comply with provisions of the laws of countries in which the Corporation or any subsidiary of the Corporation may operate in order to assure the viability of Awards granted under the Plan and to enable Employees to receive the intended advantages and benefits of Awards granted under the Plan and consistent with such laws.

(d) Exercise of Options. Subject to the applicability of Section 7.3 below, an Option shall become exercisable at such time or times, and on such conditions, as the Committee may specify. The Committee may at any time accelerate the time at which all or any part of an Option may be exercised.

An Employee electing to exercise an Option shall give written or electronic notice to the Corporation or its agent of the election and of the number of shares of Stock that the Employee elects to acquire, accompanied by any documents or instruments required by the Corporation or its agent and payment in full for the Stock purchased, together with provision for the amount of any taxes due in respect of the sale and issue thereof.

(e) Payment for Stock. Stock purchased by an Employee upon exercise of an Option may be paid for in any legal manner so specified by the Committee, including the following methods, which may be used in combination if specified by the Committee:

(1) In cash or by check, bank draft or money order payable to the order of the Corporation.

(2) If permitted by applicable law, through the delivery of an assignment to the Corporation of a sufficient amount of the proceeds from the sale of unrestricted Stock acquired upon exercise to pay for all of the Stock so acquired and any tax withholding obligation resulting from such exercise; and an authorization to the broker or selling agent to pay that amount to the Corporation.

(3) Through the delivery of an amount of previously acquired shares of unrestricted Stock having in the aggregate a Fair Market Value equal to the exercise price, provided that such method is consistent with applicable tax laws, policies and eligibility criteria established by the Committee. Employees may further apply the Stock acquired upon such exercise to satisfy the exercise price for additional Stock.

With respect to ISO's, acceptable methods of payment for stock upon exercise of an Option shall be set forth in the Award instrument granting the applicable ISO.

(f) Special Rules for ISO's. The aggregate Fair Market Value (determined as of the date of grant) of the shares of Stock covered by ISO's granted under this Plan or any other equity plan of the Corporation and its subsidiaries, that becomes exercisable for the first time by the Employee in any calendar year shall not exceed $100,000. Nothing in this special rule shall be construed as limiting the exercisability of any Option unless the Committee provides for a limitation at the time of grant.

5.3 STOCK APPRECIATION RIGHTS.

(a) Description of Stock Appreciation Rights. A "Stock Appreciation Right" ("SAR") is an Award entitling the recipient upon exercise of the Right to receive an amount, in cash or Stock, or a combination thereof (at the Committee's discretion), equal to the appreciation, if any, in the Fair Market Value of a share of the Corporation's Common Stock from the date of the grant of the SAR to the date of its payment or settlement.

(b) Other Terms and Conditions of Stock Appreciation Rights. The Award price per SAR shall not be less than the Fair Market Value of a share of the Corporation's Common Stock on the date the SAR is granted. An Employee electing to exercise a Stock Appreciation Right must give written or electronic notice to the Corporation or its agent of the election, accompanied by any documents or instruments required by the Corporation or its agent, together with provision for the amount of any taxes due with respect thereto.

5.4 RESTRICTED AND UNRESTRICTED STOCK.

(a) Definition of Restricted Stock Awards. A "Restricted Stock Award" entitles the recipient to acquire shares of Restricted Stock subject to such restrictions, conditions and contingencies as may be determined by the Committee in its sole discretion.

(b) Rights as a Stockholder. At the discretion of the Committee, an Employee who receives Restricted Stock will have all the rights of a stockholder with respect to the Restricted Stock, including voting and dividend rights, subject to the restrictions described in paragraph (c) below and any other restrictions, conditions and contingencies imposed by the Committee at the time of grant. The Committee may require that dividends be paid in additional shares of Restricted Stock or in Stock Units.

(c) Restrictions and Obligations of Resale. "Restricted Stock" is Stock subject to restrictions against disposition as specified by the Committee in the Award instrument and may not be sold, transferred, or otherwise disposed of, and shall not be pledged or otherwise hypothecated, except as provided in the Award instrument. Except as otherwise provided in the Award instrument, in the event of termination of employment for any reason other than as specified in Section 6.1 or 6.2, Restricted Stock shall be forfeited to the Corporation, except that it shall be offered for resale to the Corporation at its original acquisition price if the Restricted Stock was issued for monetary consideration.

(d) Other Awards Settled with Restricted Stock. The Committee may, at the time any Award described in this Section 5 is granted, provide that any or all of the Stock delivered or issuable pursuant to the Award will be Restricted Stock.

(e) Unrestricted Stock Awards. The Committee may, in its sole discretion, award to any eligible Employee unrestricted shares of Stock under the Plan ("Unrestricted Stock Award"). Any Employee who receives an Unrestricted Stock Award will have all the rights of a stockholder, including voting and dividend rights.

(f) Price of Restricted and Unrestricted Stock. Grants of Restricted Stock and Unrestricted Stock shall be made at such purchase price as the Committee shall determine in its sole discretion, and may be issued for no monetary consideration, subject to applicable state law.

5.5 STOCK UNITS.

(a) A "Stock Unit Award" entitles the recipient to receive, without payment, "Stock Units" in the form of phantom shares of stock which are valued at the Committee's discretion in whole or in part by reference to, or otherwise based on, the Fair Market Value of the Corporation's Common Stock.

(b) An Employee who receives Stock Units may be given rights to dividend equivalents, subject to any conditions imposed by the Committee at the time of grant. The Committee may provide that any such dividend equivalents be paid in cash, in shares of stock or in additional Stock Units.

5.6 PERFORMANCE CRITERIA.

The Committee in its discretion may grant Awards contingent on satisfaction of performance criteria established by the Committee consistent with Section 162(m) of the Code. Such performance criteria shall be based on level of revenue, operating income, profit after tax, earnings per share, cash flow, return on equity or return on assets. The Committee may select one criterion or multiple criteria, and the measurement may be based on Corporation or business unit performance, or on comparative performance with that of other companies or units thereof.

The Committee in its discretion may also grant Awards contingent on satisfaction of performance criteria other than those specified in the paragraph above.

SECTION 6 -- TERMINATION OF EMPLOYMENT

6.1 DEATH OR DISABILITY OF EMPLOYEE.

Unless otherwise specified in the Award instrument, if an Employee (i) dies while employed by the Corporation or any subsidiary of the Corporation (or upon the death of an Employee after termination of employment), or (ii) ceases to be employed by the Corporation or any subsidiary by reason of his or her permanent and total disability ("Disability"), as determined by the Committee, the following rules shall apply:

(a) Each Option and Stock Appreciation Right held by the Employee immediately prior to his or her death shall become fully exercisable and may be exercised only until one year after his or her death (whether or not this period ends after expiration of the exercise period specified in the Award instrument, but in the case of an ISO, in no event later than the expiration of the ISO under its original terms) by the Employee's executor or administrator, or if not so exercised, by the legatees or distributees of his or her estate or by such other person or persons to whom the Employee's rights under such Option or Stock Appreciation Right shall pass by will or by the applicable laws of descent and distribution.

(b) Each Option and Stock Appreciation Right held by the Employee when his or her employment ends due to Disability shall become fully exercisable and shall continue to be exercisable in accordance with the terms set forth in the Award instrument relating to such Award.

(c) Each share of Restricted Stock and each Stock Unit covered by an Award held by the Employee immediately prior to his or her death or Disability will immediately become free of all restrictions, conditions and contingencies thereon.

6.2 RETIREMENT.

If an Employee ceases to be employed by the Corporation or any subsidiary of the Corporation by reason of his or her retirement at or after age 55, the Employee's rights with respect to Awards held by him or her as of such retirement date shall be as set forth in the Award instrument relating to each such Award. Retirement, including early retirement, under any pension plan of the Corporation or any subsidiary of the Corporation shall not by itself constitute retirement for purposes of the Plan.

6.3 TERMINATION OF EMPLOYMENT.

Unless otherwise provided in the Award instrument, if an Employee ceases to be employed by the Corporation or any subsidiary of the Corporation for any reason other than the reasons specified in Sections 6.1 and 6.2 above, the following rules shall apply:

(a) Each Option and Stock Appreciation Right held by the Employee that is unexercised when his or her employment ends shall expire upon such termination of employment.

(b) Each share of Restricted Stock held by the Employee on which all restrictions, conditions and contingencies have not lapsed shall be forfeited or offered for resale to the Corporation in accordance with Section 5.4 above, and each Stock Unit as to which all restrictions, conditions and contingencies have not lapsed or been performed shall be forfeited.

6.4 COMMITTEE DETERMINATIONS.

Any question as to whether there has been a retirement, Disability or termination of employment shall be determined by the Committee, and its determination of such question shall be final.

SECTION 7 -- GENERAL PROVISIONS

7.1 TERM AND AMENDMENT.

Unless earlier terminated by the Board of Directors, the Plan shall terminate on December 31, 1998, and no Awards shall be granted under the Plan after such date; provided, however, that Awards payable or requiring exercise which are granted on or before this date shall remain payable or exercisable in accordance with their respective terms after the termination of the Plan; and provided, further that the authority of the Committee to take actions with respect to any such Awards as contemplated herein shall extend beyond termination of the Plan.

The Board of Directors may at any time terminate the Plan or suspend the grant of Awards under the Plan. The Board of Directors may at any time amend the Plan or any outstanding Award for any lawful purpose; provided, that no amendment, without the approval of the Corporation's stockholders, shall increase the maximum number of shares of Stock that may be issued under the Plan or issued in the aggregate pursuant to the certain Awards listed in Section 3 above (except as permitted by the last paragraph of Section 3 above and Section 7.7 below); and provided, further, that no amendment, without the approval of the Corporation's stockholders (where such approval is necessary to satisfy then-applicable requirements of federal securities laws, the Code or rules of any stock exchange on which the Corporation's Common Stock is listed), shall extend the period during which Awards may be granted under the Plan or amend the eligibility provisions of Section 4 above.

7.2 NON-TRANSFERABILITY OF AWARDS.

(a) Except to the extent permitted by Rule 16b-3 and as otherwise provided in the Award instrument, no Award (other than Stock or cash transferred to an Employee under the Plan without restrictions) may be transferred other than by will or by the laws of descent and distribution, and during an Employee's lifetime an Award requiring exercise may be exercised only by him or her (or in the event of incapacity, the person or persons properly appointed to act on his or her behalf).

(b) Notwithstanding anything contained herein to the contrary, in the event an Employee terminates his or her employment to assume a position with a governmental, charitable or educational institution, the Committee, in its sole discretion and provided such arrangement is in accordance with applicable law, may authorize a third party, including but not limited to a "blind" trust, acceptable to the applicable governmental, charitable or educational institution, the Employee and the Committee, to act on behalf and for the benefit of such Employee with respect to any Awards.

7.3 DOCUMENTATION OF AWARDS.

Awards shall be evidenced by written instruments which shall describe the Award and the terms and conditions thereof. The granting of an Award may be subject to, and conditioned upon, the Employee's execution of any Award instrument required by the Committee. Each Award instrument shall contain such provisions as the Committee shall determine in its sole discretion. The instruments may be in the form of agreements to be executed by both the Employee and the Corporation or certificates, letters or similar instruments, which need not be executed by the Employee but acceptance of which will evidence agreement to the terms of the Award.

7.4 RIGHTS AS A STOCKHOLDER.

Except as specifically provided in the Plan, the receipt of an Award will not give an Employee rights as a stockholder; the Employee will obtain such rights, subject to any limitations imposed by the Plan or the Award instrument, upon actual receipt of Stock.

7.5 TAX WITHHOLDING.

The Corporation will withhold from any cash payment made pursuant to an Award an amount sufficient to satisfy all federal, state and local withholding tax requirements (the "withholding tax requirements").

In the case of an Award delivered in Stock, the Committee will have the right to require that the Employee or other appropriate person remit to the Corporation an amount sufficient to satisfy the withholding tax requirements or make other arrangements satisfactory to the Committee with regard to such requirements prior to the event giving rise to such withholding tax requirement. If and to the extent that withholding is required, the Committee may permit the Employee or other appropriate person to

elect, at the time and in the manner as the Committee provides, to have the Corporation hold back from the Stock to be delivered, or to deliver to the Corporation, Stock having a value calculated to satisfy the withholding tax requirements.

7.6 DEFERRAL OF PAYMENTS.

The Committee may, in its sole discretion, either in the terms of an Award instrument or upon the request of an Employee holding an Award, defer the date on which any payment of cash or Stock under such an Award shall be made. The Committee may also establish rules and procedures for the crediting of interest on deferred cash payments and dividends or dividend equivalents for deferred payments denominated in Stock or Stock Units. Any deferral, whether requested by the Employee or specified in the Award instrument or otherwise by the Committee, may be subject to forfeiture in accordance with terms established by the Committee.

7.7 ADJUSTMENTS IN THE EVENT OF CERTAIN TRANSACTIONS.

(a) In the event of a stock dividend, stock split or combination of shares, recapitalization or other change in the Corporation's capitalization, or other distribution with respect to holders of the Corporation's Common Stock other than normal cash dividends, the Committee shall make appropriate adjustments to the maximum number of shares of Stock that may be delivered under the Plan and to the maximum number of shares of Stock that may be issued pursuant to certain Awards, all as set forth in Section 3 above.

(b) In any event referred to in paragraph (a), the Committee shall also make any appropriate adjustments to the number and kind of shares of Stock subject to Awards then outstanding or subsequently granted, any exercise or purchase prices relating to Awards and any other provisions of Awards affected by such change. The Committee may also make adjustments to take into account material changes in law or in accounting practices or principles, mergers, consolidations, acquisitions, dispositions, repurchases or similar corporate transactions, or any other event, if it is determined by the Committee that adjustments are appropriate to avoid distortion in the operation of the Plan.

(c) Any adjustments made pursuant to paragraphs (a) or (b) with respect to ISO's shall be made only after the Committee, after consulting with the Corporation's counsel, determines whether such adjustments would constitute a "modification" of the ISO's (as that term is defined in Section 422 of the Code) or would otherwise cause any adverse tax consequences for the holders of the ISO's. If the Committee determines that such adjustments to be made with respect to ISO's would constitute a modification of the ISO's, it may refrain from making such adjustments.

7.8 EMPLOYMENT RIGHTS.

Neither the adoption of the Plan nor the grant of Awards shall confer upon any person any right to continued employment with the Corporation or any subsidiary of the Corporation or affect in any way the right of the Corporation or any subsidiary of the Corporation to terminate an employment relationship at any time. Except as specifically provided by the Committee, the Corporation shall not be liable for the loss of existing or potential profit in Awards granted under the Plan in the event of termination of an employment relationship even if the termination is in violation of an obligation of the Corporation or any subsidiary of the Corporation to the Employee.

7.9 CHANGE IN CONTROL.

(a) In order to maintain Employees' rights in the event of any Change in Control of the Corporation, the Board of Directors (as constituted on the date the Award is granted or as constituted immediately prior to the Change in Control) may, in its sole discretion, as to any Award, either on the date an Award is granted or any time thereafter, take any one or more of the following actions:

(1) Provide for the acceleration of any time periods relating to the exercise or realization of or lapse of restrictions, conditions and contingencies under any Award so that the Award may be exercised or realized in full on or before a date fixed by the Board of Directors.

(2) Provide for the purchase of any Award, upon the Employee's request, for an amount of cash equal to the amount that could have been obtained upon the exercise of the Award or realization of the Employee's rights thereunder had the Award been currently exercisable or payable.

(3) Make such adjustment to any Award then outstanding as the Board of Directors deems appropriate to reflect the Change in Control.

(4) Cause any Award then outstanding to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation after the Change in Control.

Subject to this Section 7.9, the Committee may, in its discretion, include further provisions and limitations relating to the Change in Control in any Award instrument as it may deem equitable and in the best interests of the Corporation.

Notwithstanding anything to the contrary in this Section 7.9 (unless otherwise specifically provided in the Award Agreement at the time an Award is granted), upon any Change in Control of the Corporation, any time periods or conditions or contingencies relating to the exercise or realization of, or lapse of restrictions under, any Award shall be automatically accelerated (or waived) so that the Award may be exercised or realized in full; provided that, in the event of a Change in Control that is intended to qualify for pooling of interests accounting treatment, the foregoing provisions of this paragraph shall be of no force and effect if implementation of such provisions would preclude the Change in Control from so qualifying and, in such event, the Committee shall take whatever action it deems appropriate to enable holders of Awards to realize a substantially similar economic result as would have been realized by acceleration of Awards but without precluding the Change in Control from qualifying as a pooling of interests.

(b) A "Change in Control" is defined to mean any of the following events:

(1) The acquisition by any person (including a group, within the meaning of Sections 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Corporation or any subsidiary of the Corporation, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of the combined voting power of the Corporation's outstanding voting securities.

(2) The first purchase under a tender offer or exchange offer, other than an offer by the Corporation or any subsidiary of the Corporation, pursuant to which shares of the Corporation's Common Stock have been purchased.

(3) During any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Corporation cease for any reason (other than death or disability) to constitute at least a majority thereof, unless the election or the nomination for election by stockholders of the Corporation of each new Director was approved by a vote of at least two-thirds of the Directors then still in office who were Directors at the beginning of the period.

(4) Approval by stockholders of the Corporation of a merger, consolidation, liquidation or dissolution of the Corporation, or the sale of all or substantially all of the assets of the Corporation.

7.10 APPROVALS.

Anything in the Plan to the contrary notwithstanding, the effectiveness of the Plan and of the grant of all Awards is subject to, and the Plan and the Awards granted under it shall be of no force and effect unless and until, and no Awards granted shall in any way vest or become exercisable, unless and until the Plan is approved by the affirmative vote of a majority of the shares of the Corporation's Common Stock present in person or by proxy and entitled to vote at a meeting of stockholders at which the Plan is presented for approval. The date the Plan is approved by the stockholders of the Corporation shall be the Effective Date of the Plan. The Effective Date must occur within one year after approval of the Plan by the Board of Directors. Any grant of an Award prior to the approval by the stockholders of the Corporation shall be void if such approval is not obtained. The Corporation's obligation to sell and deliver shares of Stock under the Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance or sale of the Stock.

7.11 SUCCESSORS AND ASSIGNS.

The Plan shall be binding upon all successors and assigns of an Employee receiving an Award under the Plan, including, without limitation, the estate of any such Employee and the executors, administrators or trustees of such estate, and any receiver, trustee in bankruptcy or representative of the creditors of any such Employee.

7.12 1990 PLAN.

Upon approval of the Plan by the Corporation's stockholders, the authority to grant additional Awards under the Corporation's 1990 Plan shall expire. Awards granted pursuant to the 1990 Plan shall remain outstanding and exercisable and subject to the Award instruments relating thereto, or in accordance with such other terms and conditions as the Committee shall determine.

7.13 GOVERNING LAW.

The Plan and all determinations made and related actions taken by the Commit- tee or the Board of Directors, to the extent not otherwise governed by the Code or the securities laws of the United States, shall be governed by the laws of the Commonwealth of Massachusetts and shall be construed accordingly.

7.14 DEFINITIONS.

As used in the Plan, the following terms shall have the following meanings:

<TABLE>
<CAPTION>

TERM	SECTION IN WHICH TERM IS DEFINED
<S>	<C>
"Awards"	Section 5.1
"Change in Control"	Section 7.9(b)
"Code"	Section 2
"Committee"	Section 2
"Corporation"	Section 1
"Disability"	Section 6.1
"Employee"	Section 4
"Fair Market Value"	Section 5.2(b)
"ISO"	Section 5.2(a)
"1990 Plan"	Section 3(b)
"1934 Act"	Section 2
"Non-Qualified Option"	Section 5.2(a)
"Option"	Section 5.2(a)
"Plan"	Section 1
"Restricted Stock"	Section 5.4(c)
"Restricted Stock Award"	Section 5.4(a)
"Rule 16b-3"	Section 2
"SAR"	Section 5.3(a)
"Stock"	Section 3(a)

"Stock Appreciation Right"	Section 5.3(a)
"Stock Units"	Section 5.5(a)
"Stock Unit Award"	Section 5.5(a)
"Unrestricted Stock Award"	Section 5.4(e)

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EXHIBIT 10(g)

DIGITAL EQUIPMENT CORPORATION
1995 STOCK OPTION PLAN FOR NONEMPLOYEE DIRECTORS
As Amended and Restated on June 12, 1997

Section 1 -- Purpose

The purpose of the 1995 Stock Option Plan for Nonemployee Directors (the "Plan") is to increase the proprietary interest of nonemployee members of the Board of Directors in the continued success of Digital Equipment Corporation (the "Corporation") and to provide them with an incentive to continue to serve as directors.

Section 2 -- Administration

The Plan shall be administered by the Compensation and Stock Option Committee of the Board of Directors of the Corporation, or any successor committee thereto. The Committee shall have responsibility finally and conclusively to interpret the provisions of the Plan and to decide all questions of fact arising in its application. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan.

Section 3 -- Type of Options

Options granted pursuant to the Plan shall be nonstatutory options which are not intended to meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

Section 4 -- Eligibility

Directors of the Corporation who are not employees of the Corporation or any subsidiary or affiliate thereof ("Nonemployee Directors") shall be eligible to participate in the Plan. Each Nonemployee Director to whom options are granted hereunder shall be a participant ("Participant") under the Plan. Nonemployee Directors who were serving as directors of the Corporation on January 1, 1995 are referred to herein as "Existing Nonemployee Directors." Nonemployee Directors who commence service as directors of the Corporation after January 1, 1995 are referred to herein as "New Nonemployee Directors."

Section 5 -- Stock Available under the Plan

Subject to adjustment as provided in Section 9 below, an aggregate of 50,000 shares of the Corporation's Common Stock, plus the number of shares of Common Stock available for issuance under the Corporation's 1990 Stock Option Plan for Nonemployee Directors as of the date of approval of the Plan by the Corporation's stockholders, shall be available for issuance pursuant to the provisions of the Plan. Such shares may be authorized and unissued shares or may be shares issued and thereafter acquired by the Corporation. If an option granted under the Plan or under the 1990 Plan shall expire or terminate for any reason without having been exercised in whole or in part, the unpurchased shares subject to such option shall again be available for subsequent option grants under the Plan.

Section 6 -- Automatic Grant of Options

(a) In each year prior to 1997, on the date of the Corporation's Annual Meeting of Stockholders, each Existing Nonemployee Director who continues in office after said Annual Meeting, shall receive automatically and without further action by the Board of Directors or the Committee, a grant of an option to purchase 1,000 shares of Common Stock of the Corporation in accordance with the provisions of Section 7, and subject to adjustment as provided in Section 9.

(b) In each year prior to 1997, on the date of the Corporation's Annual Meeting of Stockholders, each New Nonemployee Director who continues in office after said Annual Meeting, shall receive automatically and without further action by the Board of Directors or the Committee, a grant of an option to purchase 2,500 shares of Common Stock of the Corporation in accordance with the provisions of Section 7, and subject to adjustment as provided in Section 9.

(c) Commencing with the date of the Corporation's Annual Meeting of Stockholders in 1997, each year, on the date of the Corporation's Annual Meeting of Stockholders, each Existing Nonemployee Director who is 65 years of age or older as of the date of the Corporation's Annual Meeting of Stockholders in 1997 and who continues in office after said Annual Meeting, shall receive automatically and without further action by the Board of Directors or the Committee, a grant of an option to purchase 3,500 shares of Common Stock of the Corporation in accordance with the provisions of Section 7, and subject to adjustment as provided in Section 9.

(d) Commencing with the date of the Corporation's Annual Meeting of Stockholders in 1997, each year, on the date of the Corporation's Annual Meeting of Stockholders, each (a) New Nonemployee Director who continues in office after said Annual Meeting and (b) Existing Nonemployee Director who is less than 65 years of age as of the date of the Corporation's Annual Meeting of Stockholders in 1997 and who continues in office after said Annual Meeting, shall receive automatically and without further action by the Board of Directors or the Committee, a grant of an option to purchase 6,000 shares of Common Stock of the Corporation in accordance with the provisions of Section 7, and subject to adjustment as provided in Section 9.

Section 7 -- Terms and Conditions of Options

7.1 Exercise of Options.

(a) Each option granted under the Plan shall be exercisable at the rate of 33% on the first and second anniversaries of the date such option was granted and 34% on the third anniversary of the date such option was granted, subject to the provisions of Section 8 hereof.

(b) Notwithstanding the provisions of paragraph (a) above, an option granted to any Participant shall become immediately exercisable in full upon the first to occur of:

(1) The death of any Participant, in which case the option may be exercised by the Participant's executor or administrator, or if not so exercised, by the legatees or distributees of his or her estate or by such other person or persons to whom the Participant's rights under the option shall pass by will or by the applicable laws of descent and distribution;

(2) Such time as the Participant ceases to be a director of the Corporation by reason of his or her permanent disability; or

(3) Such time as the Participant retires from the Board of Directors so long as he or she is at least 70 years of age and has completed at least five years of service as a Director at the time of such retirement.

(c) In the event that the Participant ceases to be a director of the Corporation for any reason other than those specified in paragraph (b) above prior to the time a Participant's option becomes fully exercisable, the option will terminate with respect to the shares as to which the option is not then exercisable and all rights of the Participant to such shares shall terminate without further obligation on the part of the Corporation.

(d) In the event that the Participant ceases to be a director of the Corporation after his or her option has become exercisable in whole or in part, such option shall remain exercisable in whole or in part, as the case may be, in accordance with the terms hereof.

(e) Options granted under the Plan shall expire ten years from the date on which the option is granted, unless terminated earlier in accordance with the Plan; provided, however, that in the event a Participant ceases to be a director of the Corporation by reason of death, including without limitation in the event that a Participant dies after ceasing to be a director of the Corporation by reason of disability or retirement, any option granted to such Participant hereunder shall expire one year from the date of the Participant's death (whether or not this period ends after expiration of the exercise period).

7.2 Exercise Price.

The exercise price of an option shall be 100% of the fair market value per share of Common Stock of the Corporation on the date the option is granted. For purposes of the Plan, "fair market value" of a share of stock on any date shall mean the average of the high and low selling prices of the Corporation's Common Stock on the New York Stock Exchange Composite Transactions Index as of the date of grant, or if the date of grant is not a business day, as of the last business day for which prices are available prior to the date of grant.

7.3 Payment of Exercise Price.

(a) Subject to the terms and conditions of the Plan and the documentation of the options pursuant to Section 7.5 hereof, an option granted hereunder shall, to the extent then exercisable, be exercisable in whole or in part by giving written notice to the Corporation stating the number of shares with respect to which the option is being exercised, accompanied by payment in full for such shares; provided, however, that there shall be no such exercise at any one time as to fewer than one hundred (100) shares or all of the remaining shares then purchasable by the person or persons exercising the option, if fewer than one hundred (100) shares.

(b) Options granted under the Plan may be paid for by (i) delivery of cash, bank draft, money order or a check to the order of the Corporation in an amount equal to the exercise price of such options, (ii) by delivery to the

Corporation of shares of Common Stock of the Corporation already owned by the Participant having a fair market value equal in amount to the exercise price of the option being exercised, provided that such method is consistent with applicable tax laws, (iii) if permitted by applicable law, through the delivery of an assignment to the Corporation of a sufficient amount of the proceeds from the sale of Common Stock of the Corporation acquired upon exercise to pay for all of the Common Stock so acquired and an authorization to the broker or selling agent to pay that to the Corporation, or (iv) by any combination of such methods of payment.

7.4 Rights as a Stockholder.

Except as specifically provided by the Plan, the grant of an option will not give a Participant rights as a stockholder; the Participant will obtain such rights, subject to any limitations imposed by the Plan, upon actual receipt of Common Stock of the Corporation.

7.5 Documentation of Option Grants.

Option grants shall be evidenced by written instruments prescribed by the Committee from time to time. The instruments may be in the form of agreements to be executed by both the Participant and the Corporation or certificates, letters or similar instruments, which need not be executed by the Participant but acceptance of which will evidence agreement to the terms of the grant.

7.6 Nontransferability of Options.

No option granted under the Plan shall be assignable or transferable by the Participant to whom it is granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution. During the life of the Participant, the option shall be exercisable only by such person (or in the event of incapacity, by the person or persons properly appointed to act on his or her behalf).

7.7 Approvals.

The effectiveness of the Plan and of the grant of all options is subject to the approval of the Plan by the affirmative vote of a majority of the shares of the Corporation's Common Stock present in person or by proxy and entitled to vote at a meeting of the stockholders at which the Plan is presented for approval. Notwithstanding anything to the contrary in the Plan, no Options granted hereunder shall become exercisable until such approval has been received.

The Corporation's obligation to sell and deliver shares of stock under the Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance or sale of the stock.

Section 8 -- Regulatory Compliance and Listing

(a) The issuance or delivery of any shares of stock subject to exercisable Options hereunder may be postponed by the Committee for such period as may be required to comply with any applicable requirements under the Federal securities laws, any applicable listing requirements of any national securities exchange or any requirements under any law or regulation applicable to the issuance or delivery of such shares. The Corporation shall not be

obligated to issue or deliver any such shares if the issuance or delivery thereof would constitute a violation of any provision of any law or of any regulation of any governmental authority or any national securities exchange.

(b) Should any provision of this Plan require modification or be unnecessary to comply with the requirements of Section 16 of and Rule 16b-3 under the Securities Exchange Act of 1934, as amended ("1934 Act"), the Committee may waive such provision and/or amend this Plan to add to or modify the provisions hereof accordingly.

(c) It is the Corporation's intent that the Plan comply in all respects with Rule 16b-3 of the 1934 Act (or any successor or amended provisions thereof) and any applicable Securities and Exchange Commission interpretations thereof. If any provision of this Plan is deemed not to be in compliance with Rule 16b-3, the provision shall be null and void.

Section 9 -- Adjustment in Event of Changes in Capitalization

In the event of a stock dividend, stock split or combination of shares, recapitalization or other change in the Corporation's capitalization, or other distribution with respect to holders of the Corporation's Common Stock other than normal cash dividends, automatic adjustment shall be made in the number and kind of shares as to which outstanding options or portions thereof then unexercised shall be exercisable and in the available shares set forth in Section 5 hereof, to the end that the proportionate interest of the option holder shall be maintained as before the occurrence of such event. Such adjustment in outstanding options shall be made without change in the total price applicable to the unexercised portion of such options and with a corresponding adjustment in the option price per share. Automatic adjustment shall also be made in the number and kind of shares subject to options subsequently granted under the Plan.

Section 10 -- No Right to Reelection

Nothing in the Plan shall be deemed to create any obligation on the part of the Board of Directors or standing Committee thereof to nominate any Nonemployee Director for reelection by the Corporation's stockholders, nor confer upon any Nonemployee Director the right to remain a member of the Board of Directors for any period of time, or at any particular rate of compensation.

Section 11 -- Amendment and Termination

(a) The Board of Directors shall have the right to amend, modify or terminate the Plan at any time and from time to time; provided, however, that unless required by law, no such amendment or modification shall (a) affect any right or obligation with respect to any grant theretofore made; or (b) unless previously approved by the stockholders, increase the number of shares of Common Stock available for grants as provided in Section 5 hereof (as adjusted pursuant to Section 9 hereof). In addition, no such amendment shall, unless previously approved by the stockholders (where such approval is necessary to satisfy then applicable requirements of federal securities laws, the Code or rules of any stock exchange on which the Corporation's Common Stock is listed), (i) in any manner affect the eligibility requirements set forth in Section 4 hereof, (ii) except to the extent provided for in Section 9 hereof, increase the number of shares of Common Stock subject to any option, (iii) except to the extent provided for in Section 9 hereof, change the purchase price of the shares of Common Stock subject to any option, (iv) extend the period during which options may be granted under the Plan, (v) materially increase the benefits to Participants under the Plan, (vi) in any manner cause Rule 16b-3 under the 1934 Act (or any successor provision thereof) to become inapplicable to this Plan; and provided further that, except to the extent permitted by Rule 16b-3, the provisions of this Plan specified in Rule 16b-3(c)(2)(ii)(A) (or any successor or amended provision thereof) under the 1934 Act (including without limitation, provisions of eligibility, amount, price and timing of awards) may not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

(b) Unless earlier terminated by the Board of Directors, the Plan shall terminate on December 31, 2000; provided, however, that options which are granted on or before this date shall remain exercisable in accordance with their respective terms after the termination of the Plan.

Section 12 -- 1990 Plan

Upon approval of the Plan by the Corporation's stockholders, the authority to grant options under the 1990 Stock Option Plan for Nonemployee Directors shall expire. Options granted pursuant to the 1990 Stock Option Plan for Nonemployee Directors shall remain outstanding and exercisable and subject to the option agreement related thereto, or in accordance with such other terms and conditions as the Committee shall determine.

Section 13 -- Governing Law

The Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

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EXHIBIT 10(j)

Digital Equipment Corporation

Retirement Arrangement for Non-Employee Directors
(as amended on June 12, 1997)

I. Name and Purpose

The name of this plan is the Digital Equipment Corporation Retirement Arrangement for Non-Employee Directors (the "Plan"). Its purpose is to recognize and reward the valuable service provided to Digital Equipment Corporation by its non-employee directors by supplementing their retirement income.

II. Effective Date

The Plan shall become effective for any non-employee director terminating service with the Digital Equipment Corporation Board of Directors (the "Board") on or after 18 May 1987.

III. Eligibility for Participation

All non-employee directors of Digital Equipment Corporation on 18 May 1987 shall be eligible to participate and shall begin participation in the Plan on 18 May 1987. All non-employee directors of Digital Equipment Corporation who are appointed to the Board on or after 19 May 1987 shall be eligible to participate in the Plan and shall begin participation upon the effective date of their appointment or election to the Board. Any director who begins participation shall be a participant (a "Participant") in the Plan for life. Notwithstanding the foregoing paragraph, effective upon and subject to the approval of the 1995 Stock Option Plan for Non-Employee Directors by the stockholders of Digital Equipment Corporation, eligibility to participate in the Plan shall be limited only to those individuals who commenced service as a director prior to January 1, 1995; AND FURTHER, effective as of the date of the 1997 Annual Meeting of Stockholders of Digital Equipment Corporation, eligibility to participate in the Plan shall be limited only to those individuals who commenced service as a director prior to January 1, 1995 AND are 65 years of age or older as of the date of such Annual Meeting.

IV. Entitlement to Retirement Benefit

Any Participant in the Plan as of 18 May 1987, and any other Participant in the Plan having reached age seventy (70) and with at least five (5) years of service as a non-employee director of Digital Equipment Corporation, who terminates service with the Board on or after 18 May 1987 shall be entitled to an annualized benefit for life which is equal in amount to the annual retainer in effect for non-employee directors as of the Participant's date of termination of service on the Board. For purposes of determining years of service for purposes of this Section IV., time for which a Participant receives a disability benefit under Section VI. of this Plan shall be considered time included in years of service. Furthermore, termination of service for purposes of this Section IV. shall mean the later of actual termination of service and cessation of disability benefits under Section VI. hereof, if applicable.

V. Payment of Retirement Benefit

The benefit due to a Participant under this Plan shall be paid as quarterly installments, each equal to one-fourth of the annual benefit provided for in IV. above. Installments shall become due and payable as of the first day of each calendar quarter. The first such payment shall become due and payable as of the first day of the calendar quarter next following the date on which the Participant terminates service as a director of Digital Equipment Corporation. The last such payment shall become due and payable as of the first day of the calendar quarter in which the Participant dies. Payment shall be mailed to the last known address of the Participant. It shall be the responsibility of the Participant to ensure that Digital Equipment Corporation is provided his or her correct address. There shall be no death benefit hereunder.

VI. Entitlement to Disability Benefit

Any Participant in the Plan who terminates service on the Board as a result of a total disability on or after 18 May 1987 at a time when he or she does not qualify for a retirement benefit under Section IV. above shall be entitled to an annual benefit for the period of time during which he or she is disabled or until he or she attains the age and service requirements for a retirement benefit under IV. above, whichever is shorter, which is equal in amount to the annual retainer in effect for non-employee directors as of his or her date of termination of service on the Board. Total disability shall mean a physical or mental condition which, in the

sole and unfettered discretion of the Board, makes continued service on the Board impossible or undesirable.

VII. Payment of Disability Benefit

Any payments under Section VI. hereof shall be paid according to the provisions of Section V. hereof as if such disability benefit were a retirement benefit and as if the termination of the Participant's service on the Board as a result of total disability were termination of service after age seventy (70) with five (5) full years of service on the Board. The disability benefit hereunder shall cease on ending of the disability or on the attainment of the age and service requirements for a retirement benefit and no disability payment shall be made after the date on which the disability ends or the said requirements have been met. No duplication of benefits between disability benefits and retirement benefits shall be permitted.

VIII. Participant's Rights in Benefit

A Participant shall not have any interest in the benefits under this Plan until they are distributed in accordance with the Plan. Until paid, all amounts payable under the Plan shall remain the sole property of the Corporation, subject to the claims of its general creditors and available for its use for whatever purposes are desired. With respect to unpaid benefits, a Participant is merely a general creditor of the Corporation, and the obligation of the Corporation hereunder is purely contractual and shall not be funded or secured in any way. This Plan is not, and is not intended to be, for employees of Digital Equipment Corporation and is not a plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

IX. Non-Assignability

The right of a Participant to the payment of benefits as provided in the Plan shall not be assigned, transferred, pledged or encumbered or be subject in any manner to alienation or anticipation.

X. Administration

The Administrator of this Plan shall be the Office of the President of the Corporation. The Administrator shall have authority to adopt rules and regulations for carrying out the Plan and to interpret, construe and implement the provisions hereof, and may delegate the authority to administer the Plan to such delegee as

the Administrator of its sole and unfettered discretion believes appropriate.

XI. Amendment and Termination

The Plan may at any time be amended, modified, or terminated by the Board of Directors of the Corporation. No amendment, modification or termination shall, without the consent of a Participant, adversely affect such Participant's right with respect to benefits accrued as of the date of amendment, modification, or termination. An accrued benefit as of a particular date shall mean that benefit to which a Participant would be entitled under the Plan if it had remained in existence after the date of termination of the Plan, but with no additional service performed by the Participant and with no change of disability status by the Participant after the termination date.

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EXHIBIT 10(m)

19 October 1995

Bruce Claflin
786 Ridgebury Road
Ridgefield, Connecticut 06877

Re: Offer of Employment

Dear Bruce,

I am pleased to offer you the position of Vice President and General Manager, Personal Computer Business Unit, reporting to me. Your base salary will be at the annual rate of $350,000. Also, if you leave your current employer before 31 December 1995 and lose your bonus, Digital will offset that loss up to $225,000. Your date of hire will be mutually agreed upon should you accept this offer.

EXECUTIVE INCENTIVE PLAN

You will participate in Digital's Executive Incentive Plan. Any payment thereunder will be made solely at the discretion of Digital's Board of Directors, subject to Company, Business Unit, and individual performance and subject to all other terms and conditions of the Plan, which may be revised from time to time at the discretion of the Company. Your recommended target participation will be $200,000 for on-plan performance for Fiscal Year 1996 provided you are employed by Digital on the payment date.

Under the current terms of the 1996 Executive Incentive Plan, you have the potential to earn an award that may exceed your target participation by as much as two to three times for exceptional individual performance, and the exceptional performance of the Company and the Personal Computer Business Unit, all as determined in accordance with the Executive Incentive Plan.

STOCK AWARDS

I will recommend to the Compensation and Stock Option Committee of Digital's Board of Directors ("CSOC") to grant you a stock award of 20,000 shares of Digital Common Stock

under the 1990 Equity Plan. Your stock award will be granted on the date that the CSOC approves such award, and is subject to restrictions on your ability to sell, transfer, pledge, or dispose of the stock for a period of time. In addition, if you leave Digital for reasons other than death, permanent disability, or as otherwise specified in your stock award agreement, you will forfeit all the shares for which restrictions have not lapsed; provided, however, if your employment is terminated by Digital other than for Cause (as defined below) within one year of your hire date, the restrictions with respect to 40% of your shares will lapse on the first anniversary of your hire date. These restrictions will lapse with respect to 40% of your shares one year from your date of hire, with respect to 30% of your shares two years from your date of hire, and with respect to 30% of your shares three years from your date of hire.

I will also recommend to the CSOC to grant you a non-qualified stock option to purchase 75,000 shares (the "Option Shares") of Digital Common Stock under the 1990 Equity Plan. The exercise price of this stock option will be equal to the fair market value of Digital Common Stock on the date the option is granted by the CSOC. The option will become exercisable with respect to 33% of the Option Shares one year from your date of hire, an additional 33% of the Option Shares two years from the date of hire, and the remaining 34% of the Option Shares three years from your date of hire.

Both stock and option grants are subject to approval by the CSOC and you will be notified, upon the grant having been made, by a separate award letter for each and a stock option agreement. You will be solely responsible for any income tax consequences (including making a section 83(b) election) associated with your receipt of such awards.

Pursuant to the compensation practices currently in effect at Digital, an individual serving in the capacity of Vice President and General Manager, Personal Computer Business Unit, would typically receive an annual stock option to purchase between 30,000 to 40,000 shares of Digital Common Stock. However, all grants of stock options are subject to and dependent upon the authorization of CSOC, the Company's and the employee's performance, and the then existing compensation practices and objectives of the Company.

"Cause" means (a) the commission of a willful act against Digital; or (b) your willful misconduct which has caused or has a likelihood of causing harm to Digital; or (c) the breach of one or more terms of the Confidentiality Agreement; or (d) the material breach of your representation concerning noncompetition contained in this letter.

INDEMNIFICATION

If during the two year period commencing on the date you exercise your stock options to purchase 20,257 shares of IBM stock ("the IBM Shares") under the IBM 1989 Long-Term Performance Plan (the "IBM Plan"), IBM attempts to rescind the issuance to you of the IBM Shares pursuant to Section 13 (d) of the IBM Plan for noncompliance with Section 13(a) of the IBM Plan, or IBM seeks restitution of any gain realized by you from the sale or transfer of the IBM Shares, Digital agrees to indemnify you (i) for all reasonable legal costs, on a current

basis, you incur in connection with any action commenced by IBM concerning the IBM Shares (an "Action") (subject to Digital's right to assume the defense of such Action, as provided below) and (ii) for the difference between the exercise price of the IBM Shares and their sale price (the "Gain"), provided that you (a) promptly notify Digital of the commencement of such Action and (b) do not enter into any settlement thereof without Digital's prior written consent. Following such notification, Digital may elect in writing to assume the defense of the Action. Upon such election, Digital shall not be liable for any legal costs subsequently incurred by you. Digital further agrees that it will not enter into the settlement of an Action which adversely affects you without your prior written consent.

EMPLOYEE BENEFITS

As a regular employee, you will be eligible to participate in Digital's U.S. employee benefit plans under the terms separately provided for under each such plan or arrangement, except that you will be eligible for five weeks of vacation on an annual basis.

RELOCATION

You will be provided with the standard relocation benefit offered to employees of Digital. In addition to Digital's Standard Relocation Program, you have been approved for the following provisions: assistance in marketing your Stonington CT home and reimbursement of associated closing costs; second household goods shipment from your home in Stonington CT; extended temporary living during the time that you have dual housing costs, not to exceed 30 June 1996. Upon acceptance of this offer, you will be assigned a dedicated Relocation Specialist to provide you with a thorough relocation orientation and to assist you throughout the relocation process. Should you voluntarily terminate your employment with Digital within a period of two years from your date of hire, per the Digital Relocation Obligation Agreement, you will be obligated to repay the relocation expenses that have been paid on your behalf by Digital.

SEVERANCE

If, prior to the second anniversary of your date of hire, your employment is terminated by Digital for other than Cause, Digital will pay you an amount equal to your annual rate of base compensation. In addition, you will continue your medical benefits in a manner equivalent to those provided to you immediately prior to the date your employment ends for a period of one year or until you become eligible for such coverage from another employer, whichever comes first.

For purposes of this section and the first paragraph of the "Stock Awards" section only, if Digital causes a material change in the nature or scope of the responsibilities, functions, or

duties associated with the position for which you are being hired, your resignation under such circumstances will be considered to be a termination of employment by Digital.

Pursuant to practices currently in effect at Digital, an individual serving in the capacity of Vice President and General Manager, Personal Computer Business Unit, would receive as severance if terminated by Digital without cause the continuation of base salary for a period of four months, plus one additional month for each year of service at the Company, payable monthly in arrears. If such individual were to obtain employment during this period, such payments would cease. However, Digital's practices regarding severance are subject to and dependent on the facts and circumstances of each employment situation, the Company's financial condition, and the then existing objectives of the Company.

NONCOMPETITION

You represent to Digital that you are not a party to, or bound by, any agreement whether oral or written, that would prevent you from employment with Digital in the capacity of Vice President and General Manager, Personal Computer Business Unit.

STATUS

The position offered is as a regular employee, on an at-will basis. In addition, this offer is contingent upon compliance with the Immigration Reform and Control Act of 1986. In essence, the Act requires you to establish your identity and employment eligibility. To do so, you will be required to complete Section 1 of the attached Employment Verification Form and bring the documents identified in the attachment to your new hire orientation. You will not be able to commence employment with Digital until you are able to present the required documents at your new hire orientation. Your offer is also contingent on your signing Digital's Employee Invention and Confidential Agreement at your orientation. Please make yourself familiar with the contents of these documents, which we have enclosed for your review.

This agreement includes all of the agreements of the parties relative to your offer of employment and supersedes any prior agreements or representations between the parties as to the subjects covered.

VALIDITY OF OFFER

This offer is irrevocable and valid until November 1, 1995. If this offer has not been accepted in writing by then, it will cease to be valid and will be withdrawn.

If you have any questions regarding your employment, please do not hesitate to contact Bob Mulkey at (508) 493-2112.

Very truly yours

/s/ Enrico Pesatori

Bruce Claflin
October 19, 1995

I have read and agree to the terms as stated above and I accept the offer of employment.

/s/ Bruce L. Claflin   10/28/95
- ------------------------------------   ------------------
Signature   Date

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EXHIBIT 11

DIGITAL EQUIPMENT CORPORATION

Computation of Net Income/(Loss) Per Common and Common Equivalent Share

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	Year Ended				
	June 28, 1997	June 29, 1996	July 1, 1995	July 2, 1994	July 3, 1993
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	(In thousands except per share data)				
Net income/(loss)	$140,875	$(111,812)	$121,818 (b)	$(2,156,063)(d)	$(251,330)
Net income/(loss) applicable to common and common equivalent shares	$105,375(a)	$(147,312)(a)	$ 86,318(a)(b)	$(2,166,713)(c)(d)	$(251,330)
Weighted-average number of common shares outstanding during the year	154,352	152,052	144,907	137,090	130,409
Common stock equivalents from application of "treasury stock" method to unexercised and outstanding stock options	1,106	--	1,424	--	--
Total weighted-average number of common and common equivalent shares used in the computation of net income/(loss) per common and common equivalent share	155,458	152,052	146,331	137,090	130,409
Net income/(loss) applicable per common and common equivalent share	$ 0.68	$ (0.97)	$ 0.59 (b)	$ (15.80)(d)	$ (1.93)

</TABLE>

(a) Includes dividends paid and declared on Series A 8 7/8% cumulative preferred stock totaling $35,500.
(b) Net income and net income per common and common equivalent share include the cumulative effect of a change in accounting principle of $64,503 and $0.44, respectively.
(c) Includes dividends paid and declared on Series A 8 7/8% cumulative preferred stock totaling $10,650.
(d) Net loss and net loss per common share include the cumulative effect of a changes in accounting principles of $51,026 and $0.37, respectively.
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EXHIBIT 13

[DIGITAL LOGO]

[Photograph of a globe, on which a smaller photograph of two people in front of a workstation appears. The words "www.digital.com" appear over both photographs.]

WWW.DIGITAL.COM

1997 ANNUAL REPORT

...and some of our customers:
www.bestwestern.com
www.firstquote.com
www.kvaerner.com
www.lmco.com
www.nymex.com
www.optus.com.au
www.psi.ch
www.siemens.co.uk
www.southernco.com/site/home.asp
www.timewarner.com

Digital Equipment Corporation is a world leader in implementing and supporting networked business solutions. Building on its core competencies in software, systems, networks and services, DIGITAL--working with its business partners--is addressing new market opportunities while supporting its existing customer base. DIGITAL networked business solutions are helping our customers compete and win in today's global marketplace.

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WINNING IN A NETWORKED WORLD

In 1969, a group of U.S. Department of Defense and academic researchers created a new computer network--one that allowed them to share information and provide access to computers at key government facilities and research institutions around the country. Their requirements included speed, reliability and security. Their platform of choice was DIGITAL.

Known as the ARPANET after its sponsor, the Advanced Research Project Agency, this fledgling network and its visionary founders sowed the seeds for the most important information technology paradigm shift of the 1990s--the Internet.

Today, more than a quarter century after the birth of the Internet and 40 years after Digital's own founding, we are more focused than ever on the enormous opportunities the Internet is creating for enterprises around the world.

Our strategy concentrates not only on the Internet, but on the other essential building blocks of the networked enterprise--Windows NT and high-performance computing--and the associated services needed by our customers.

Our goal is very simple: to deliver Internet business solutions that enable our customers and partners to win in the global, networked economy.

<TABLE>
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Fiscal year	1997	1996
<S>	<C>	<C>
Total operating revenues	$13,046,832,000	$14,562,775,000
Restructuring charge	$ --	$ 492,000,000
Net income/(loss)	$ 140,875,000	$ (111,812,000)
Net income/(loss) per common share	$ 0.68	$ (0.97)
Total stockholders' equity	$ 3,544,956,000	$ 3,606,206,000
Number of common stockholders	53,911	62,804
Stockholders' equity per common share	$ 20.81	$ 20.62
Number of employees	54,900	59,100

</TABLE>

Annual meeting

The annual meeting of stockholders will be held at 11:00 a.m., Thursday, November 13, 1997, at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts, 02210.

Common stockholders of record on September 15, 1997 will be entitled to vote at this meeting.

[PHOTO OF ROBERT B. PALMER]

CHAIRMAN'S LETTER

TO OUR SHAREHOLDERS, EMPLOYEES, CUSTOMERS AND PARTNERS Last year was one of transition for DIGITAL--a year that began with a temporary setback and ended with improving results and increasing momentum for our company. It was also a year in which we took several actions that will have a positive impact on Digital's performance going forward.

For fiscal 1997, DIGITAL reported net income of $141 million, or $.68 per common share. Total operating revenue was $13 billion, a 10 percent decline from the previous year. I am certainly not satisfied with that performance because I know that we can--and will--do much better. But I am pleased with the way the company responded after a disappointing loss in our first quarter. We showed continuous improvement in profitability throughout the rest of the year.

For DIGITAL, the key to achieving and sustaining competitive levels of profitability--and to increasing shareholder value--is growth, and that is our top priority. I am confident that we will begin to grow again during the current fiscal year. My confidence is based on the continued progress we made during fiscal 1997 in strengthening our foundation for both growth and profitability. For example:

o We further evolved our corporate strategy, sharpened our focus on targeted growth markets and increased our emphasis on Internet-based solutions.

o We created a single, worldwide sales and marketing organization to improve our marketing, revitalize the DIGITAL brand and generate more demand for our products and services.

o We brought our product businesses together in a new division that provides the increased coordination we need to build on our product leadership and to exploit emerging technologies.

o And we continued to build on our leadership in providing the global service and support that are essential to deliver comprehensive information technology solutions.

Last year was also noteworthy for the action we took to protect DIGITAL's intellectual property. In May, DIGITAL filed an important lawsuit charging Intel Corporation with willful infringement of DIGITAL patents in the development, manufacture and sale of its Pentium, Pentium Pro and Pentium II microprocessor families.

Our decision to file suit was praised by some and questioned by others. But irrespective of the reactions, we believe DIGITAL has an obligation to protect your investments in research and development by enforcing DIGITAL's intellectual property rights.

Throughout the year the one constant was the dedication and determination of DIGITAL employees. Everywhere I go in the DIGITAL world, I am impressed by the talent and the skills of our employees. They are one of the most important reasons for my confidence in our future. Our success is the direct result of their hard work.

OPERATIONAL REVIEW Our performance during the early part of the fiscal year was a reminder that corporate transformations do not move in a straight line. But we are unwavering in our determination to succeed and to achieve competitive levels of growth and profitability. While reaching that goal is a multiyear process, we have set specific financial targets that will help mark our progress.

At the beginning of fiscal 1997, DIGITAL outlined our plan for achieving a competitive financial return.

Our goal for net profit margin is seven percent, and we are making progress in that direction. A key element in achieving that goal is improving gross margins. Total gross margin in the fourth quarter was up a full two points year over year. The increase was even more dramatic in product gross margins, which were up three points year over year and 11 points over the past three years. And we met another important financial objective by stabilizing gross margins in our services business.

Our balance sheet also remained strong. An important factor was continued improvement in all areas of asset management. The cash and short-term investment balance increased to $2.5 billion--an all-time high for the company--even as we repurchased 10 million shares of common stock during the year. Reflecting its strong confidence in our future, the Board of Directors has authorized the company to repurchase up to 15 million additional shares.

One of the highlights of the fiscal year was the return to profitability of our personal computer business. During the previous fiscal year, this business was losing money, and revenue was declining. Since then there has been a remarkable turnaround, driven by new leadership, a more focused strategy and a greater emphasis on business controls. The PC business was profitable for the full fiscal year, and revenues are growing.

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DIGITAL also made further progress in controlling expenses, managing assets more effectively and improving the efficiency of our processes and operations. As we grow, we will leverage our improved cost structure to deliver significant improvements in earnings.

GROWTH STRATEGY As the information technology market and customer needs evolve, we are more confident than ever about the strategic decisions we made two years ago. Those decisions were based on key market trends, including the dramatic expansion of the Internet and its increasing use as a business tool; the rapid acceptance of Windows NT as an enterprise operating system; and continuing strong demand for high-performance, 64-bit computing.

As our growth strategy has developed, we have increased our emphasis on the Internet, particularly the multimedia portion of the Internet known as the World Wide Web. This is reflected in our corporate vision: DIGITAL will be the undisputed leader in Web-based enterprise computing.

Digital has more than two decades of experience with the Internet. But what gives us confidence in our vision of leadership are the breadth and depth of what we offer customers today:

o A broad range of integration and operations management services that helps customers design, integrate and deploy Internet business solutions across the enterprise,

o Powerful servers to run the most demanding Web-based applications,

o Innovative software like the AltaVista search engine, the most powerful search and index service on the Internet; security firewalls that protect corporate networks from intruders; and Millicent, a revolutionary microcommerce system that will make Web-based transactions profitable down to a fraction of a cent, and,

o Strategic alliances and partnerships with industry leaders like Microsoft, MCI, British Telecom, Oracle, Computer Associates and SAP, which enable us to deliver comprehensive Internet solutions to customers.

The growing list of companies that have chosen DIGITAL AlphaServer systems to run their critical Web applications reads like a Who's Who of Internet pioneers: Netscape, Amazon.com, PointCast, Lycos and Microsoft. In fact, a Computerworld survey of the 100 premier Web sites found that nearly three-quarters of them use DIGITAL products.

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Our share of key markets is growing. For example, DIGITAL had more than 14 percent of the $1.4 billion Internet Service Provider (ISP) market worldwide at the end of 1997. Our ISP revenues were up 400 percent while that overall market doubled. We expect our market share to increase to 20 percent by the end of fiscal 1998.

THE EXPANDING INTERNET Businesses today are adopting Internet technology at a very rapid pace. They are building internal networks known as "intranets" that help unlock the valuable information stored in corporate databases and make that information available throughout the enterprise. They are establishing virtual networks that link their businesses with customers, partners and suppliers. They are devising new channels to distribute their products directly to customers. And they are creating new forms of electronic commerce, laying the foundation for a truly global, networked economy.

DIGITAL is a leader in the intranet market. We are involved in two of the largest intranet deployments in the world. One is for Kvaerner, a Norwegian multinational that is building a network to link 40,000 of its employees around the world. The other is for the American Red Cross, with the potential to link 1.4 million volunteers and staff members.

Another important trend is the emergence of a wide variety of so-called Internet appliances like network computers, TV set-top boxes, palmtop computers, smart telephones and Web phones. DIGITAL is a pioneer in this new market with our StrongARM microprocessor. This very efficient chip delivers breakthrough performance with very low power consumption and low cost--making it the ideal engine for these new devices. More than 40 companies are already designing Internet appliances around the StrongARM chip, and we expect dramatic growth in this market segment.

In addition to the Internet, we also are focusing on two other major growth opportunities: Microsoft Windows NT and high-performance 64-bit UNIX. Within each of these markets, we are targeting segments where we expect to achieve industry leadership.

During fiscal 1997, for example, DIGITAL established itself as the clear leader in mail and messaging solutions based on Windows NT and Exchange--two of Microsoft's fastest-growing enterprise offerings. Working closely with Microsoft as part of our Alliance for Enterprise Computing, DIGITAL won more than one million Exchange seats worldwide.

We are also integrating Windows NT with other operating environments, like Digital's OpenVMS operating system, which is still unrivaled for mission-critical computing. By integrating OpenVMS and Windows NT, customers can enjoy the reliability and availability of OpenVMS and the broad applications portfolio of Windows NT. DIGITAL will continue to invest in OpenVMS to meet the needs of our customers.

In the UNIX market, we are targeting segments such as data warehousing and high-performance technical computing, both of which benefit from the power and performance of DIGITAL's 64-bit systems and software.

Many companies have selected DIGITAL to provide data warehouse solutions. They include Tele-Communications Inc., one of the nation's largest cable operators, and HFS Incorporated, the nation's largest franchise holding company, with brands like Century 21 and Avis. And we are gaining share in the market for high-performance technical computing with customers like the Los Alamos National Laboratory and Sandia National Laboratories in the U.S., and CERN, a research center in Switzerland. According to International Data Corporation, a market research company, DIGITAL's share of the midrange, high-performance market increased to 28 percent last year from 21 percent the year before.

Across all of these growth markets, one of our most important competitive advantages is our ability to provide service and support worldwide. Enterprise customers are not just looking for a product supplier. They are looking for an information technology partner who can integrate products and applications in a multivendor environment, provide support after the project is complete and, in many cases, take over management of critical IT resources.

The DIGITAL Services Division is widely recognized for leadership in these areas. In fact, DIGITAL was ranked No. 1 in customer satisfaction among systems integrators in Computerworld magazine's 1997 user survey.

EXECUTING THE STRATEGY One of our continuing objectives is to improve the execution of our strategy. The most important step we took in that direction last year was a major refocusing of DIGITAL's marketing and sales operations.

A single organization is now responsible for all of our marketing efforts worldwide. This has several benefits, but the most important is that DIGITAL will go to market as one company, with a unified marketing strategy and common messages that support our growth strategy and brand. By revitalizing our single brand, we will increase demand for a multitude of DIGITAL solutions.

Part of going to market as one DIGITAL is having a sales force that is empowered to represent the entire company, not just a single business unit or function. To that end, we consolidated our product sales operations into the worldwide sales and marketing organization and increased coordination among our sales and service professionals. This enables us to

do business with customers and partners in a more uniform way. By reducing our sales complexity and redundancy, it also makes it easier for customers and partners to do business with DIGITAL.

The other major organizational change we made was the creation of the DIGITAL Products Division. Although we have attained product leadership in some key segments of the market, we are not taking that leadership for granted. By putting all of our product businesses in one division, we will increase cooperation and coordination and leverage our technical excellence across our product lines.

40 YEARS OF INNOVATION AND CUSTOMER SUCCESS On August 23, 1997, DIGITAL celebrated its 40th Anniversary. That milestone was a reminder of just how much has changed since a small group of visionaries started DIGITAL in a 19th-century woolen mill in 1957--and of how much this company has contributed to the growth of the computer industry. We are proud of that heritage of innovation and industry leadership.

From its inception, our company has been driven by a relentless focus on the future and on developing innovative technologies that will help make our customers more successful. We did these things in the past with the PDP and VAX architectures, the VMS operating system, distributed computing and clustering, to name a few. And we are doing them today with Alpha, StrongARM, DIGITAL UNIX, AltaVista and our HiNote Ultra notebook computers.

But it will take more than leadership services and technology for DIGITAL to succeed. It will take the support of our shareholders, employees, customers and partners. We know that we must continue to earn that support. Digital is committed to increasing value for shareholders, providing an exciting and rewarding workplace for our employees, and offering customers and partners nothing less than the industry's best products, services and solutions.

That is what DIGITAL has enjoyed doing for the last 40 years, and it is why we are looking forward to the next 40.

/s/ Robert B. Palmer

Robert B. Palmer
Chairman of the Board,
President and Chief Executive Officer

[Photograph of the trading floor of the New York Mercantile Exchange]

NEW YORK MERCANTILE EXCHANGE

WINDOWS NT, OPEN VMS AND DIGITAL UNIX INTEGRATED IN A DISASTER-TOLERANT ENTERPRISE SOLUTION

www.nymex.com

The world's largest petroleum and precious metals exchange is moving its core trading, settlement and compliance applications from fault-tolerant Tandem systems to mirrored disaster-tolerant Alpha clusters in separate locations as part of a DIGITAL/Microsoft solution.

Traders will now get realtime trading information rather than having to depend on written reports prepared after the market closes. At the same time, the trading floors and computer rooms in the Exchange's new building will be linked through a high-speed DIGITAL GIGAswitch system and fiberoptic cable to a second building that will serve as a backup center for both the trading floor and back office applications.

This enterprise network will include 1,100 DIGITAL PCs, 50 DIGITAL x86-based servers running Windows NT and ten AlphaServer systems in two different buildings running OpenVMS and DIGITAL UNIX operating systems. The network provides a dramatic demonstration of the interoperability of these three operating systems. Through the DIGITAL Windows NT integration program, Affinity for OpenVMS and AllConnect for UNIX provide the tools to integrate legacy systems with new applications.

BUILDING THE NETWORKED WORLD

THE INTERNET IS NOT JUST ABOUT THE FUTURE OF TECHNOLOGY--THE INTERNET IS NOW. IT PROVIDES THE INFRASTRUCTURE NEEDED TO ACQUIRE, SHARE AND PUBLISH INFORMATION. IT IS THE PLATFORM WHERE VOICE, DATA AND VIDEO TECHNOLOGIES CONVERGE. IT IS THE HEART OF A NEW GLOBAL, NETWORKED ECONOMY.

DIGITAL customers are showing the way. Netscape is operating the busiest site on the Web, handling 140 million requests per day. Best Western's reservation system supports 3,700 hotels in 73 countries. And Lockheed Martin is building a mail system to support 120,000 users. These are just three of thousands of customers who rely on DIGITAL to meet their information technology needs.

These customers recognize DIGITAL as the premier network solutions company. Network solutions were the key to our prosperity in the 1980s. They remain the foundation of our strategy today. The only difference is that now, instead of proprietary solutions, DIGITAL is using Internet technology to deliver some of the most open solutions in the industry.

As we celebrate our 40th Anniversary, we have an opportunity to capitalize on communications paradigm shifts--like the telephone, the radio and television--which can change the way we all live and work. That opportunity is the Internet. We intend to seize this opportunity.

As Internet standards and technology become more robust and pervasive...as issues surrounding bandwidth and security are resolved...and as new kinds of Internet access devices are developed and deployed...the Internet will undoubtedly become the universal computing platform of choice. There are three operating environments where, today, DIGITAL is the leader in delivering enterprise-class Internet solutions:

- Windows NT for general-purpose enterprise computing
- 64-bit UNIX for planetary-scale computing
- OpenVMS for very-high-availability computing

But having the right platforms means little unless you have the service and support to apply those platforms to the task at hand. DIGITAL provides integration, product support and operations management services in more than 100 countries through its 23,000-person Services Division.

DIGITAL's two-pronged, go-to-market strategy builds on these technological and service strengths to deliver both infrastructure and industry-focused solutions targeted at nine key markets. These solutions leverage DIGITAL's core competencies--multivendor integration, Internet security, continuous computing, high-availability data and high-performance networked platforms--to clearly differentiate us from our competitors.

INFRASTRUCTURE SOLUTIONS As customers incorporate the Internet paradigm into their corporate computing environment, they face infrastructure problems shared by companies in almost every industry. DIGITAL has developed solutions targeted at four key infrastructure markets. We are helping customers plan, design and implement intranets, deploy Internet Commerce solutions, integrate Windows NT into the enterprise, and modernize their mail and messaging systems.

INDUSTRY-FOCUSED SOLUTIONS DIGITAL also is focusing on select business solutions customized for specific industries. Four targeted market segments--data warehousing, enterprise applications, high-performance technical computing and visual computing--address specific customer needs in key industries including finance, manufacturing and telecommunications. In these markets, DIGITAL is tightly tying solutions to industry-specific requirements.

1997 MILESTONES

Forty years ago, DIGITAL opened for business with three employees and 8,500 square feet of production space in an old woolen mill. Today, as

DIGITAL celebrates its 40th Anniversary, the company is a leading worldwide supplier of networked computer systems, software and services, developing and manufacturing products and providing customer services in the Americas, Europe and Asia-Pacific.

DIGITAL won the UNITED STATES POSTAL SERVICE 1997 Quality Service Award. DIGITAL provides information technology solutions to Postal Service locations nationwide, including computer hardware and software, maintenance and support services. Since 1995, DIGITAL has provided the Postal Service with more than 82,000 PCs and servers.

MICRON ELECTRONICS, INC. presented DIGITAL Worldwide Services with an Award of Excellence at its 1997 Supplier Conference. DIGITAL provides multivendor desktop, server and notebook service and support for Micron customers worldwide.

DIGITAL'S X86-BASED PRIORIS servers broke the performance record for Windows NT, processing 8,145 transactions per minute at $48.67 per transaction.

DIGITAL announced that the STRONGARM MICROPROCESSOR will support Windows CE, the Microsoft software platform developed for consumer electronic products and Internet appliances such as hand-held personal computers, smart phones and DVD players.

AIM TECHNOLOGY awarded DIGITAL 15 "Hot Iron" awards in the UNIX and Windows NT categories at Networld+Interop.

FX!32, DIGITAL's Windows compatibility software for Alpha systems, was named one of the five best Windows NT software products by Windows Magazine. It was also named "Technology of the Year" by Windows Sources.

More than 400 companies joined DIGITAL's INTERNET INNOVATORS PROGRAM designed to help software companies increase their success throughout the product development cycle.

For example, we have delivered specific data warehousing solutions customized for different industry needs. Sumitomo Bank of Japan and other money market banks are using DIGITAL solutions to evaluate their credit card and publicly held mortgage-backed securities portfolios. Consumer packaged goods manufacturers and retailers like Schering-Plough have chosen DIGITAL micro-marketing and consumer brand management solutions that help them identify and target their best prospects. Telecommunication companies like Australia's Optus Communications rely on DIGITAL solutions for billing and customer care so they can provide better service to their subscribers.

INTERNET SERVICE PROVIDERS DIGITAL Internet Infrastructure Services play a key role in the ninth target market--Internet Service Providers. Many of these service providers look to DIGITAL for assistance in planning, designing and implementing scalable facilities to keep pace with growing Internet traffic and an expanding customer base.

PARTNERING TO PROVIDE TOTAL SOLUTIONS DIGITAL's global alliances with Computer Associates, MCI, Microsoft, Oracle and SAP play an important role in building solution sets for each of our nine targeted market segments. In addition, we have established Centers of Expertise for each market segment and we're integrating the entire value chain--aligning and teaming products, services and business partners--to provide customers with highly reliable, scalable and fully supported solutions tailored to their needs.

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DIGITAL's semiconductor manufacturing facility was named a "TOP FAB OF THE YEAR" by Semiconductor International magazine.

At the 35th Anniversary meeting of DECUS, the DIGITAL EQUIPMENT COMPUTER USERS SOCIETY, 3,000 customers were present to see significant expansions to the Windows NT integration program. This is comprised of Affinity for OpenVMS and AllConnect for DIGITAL UNIX and provides the technology, tools, services, systems integration and support needed to integrate Windows NT into the enterprise.

DIGITAL introduced ENTERPRISE INTEGRATION PACKAGES to extend OpenVMS application and enterprise capabilities to the Windows NT environment.

DIGITAL opened a new CUSTOMER CALL CENTER. By dialing 1-800- DIGITAL, customers and business partners can speak directly with a highly trained Customer Care representative who will connect them with someone to address their needs.

DIGITAL announced 11 service offerings for enterprises adopting and migrating to Microsoft technology, reinforcing DIGITAL's position as MICROSOFT'S PREMIER SERVICE AND SUPPORT PARTNER.

Readers of Data Communications voted DIGITAL the "BEST OVERALL SERVICES AND SUPPORT" provider in the magazine's annual user survey, prompting the publication to give DIGITAL the top "Users' Choice" award.

For the third consecutive year, Datamation magazine readers named DIGITAL's AlphaServer "SERVER OF THE YEAR."

[Photograph of a man at a newsdesk, over which the image of the Road Runner and the words "Road Runner High Speed Online" appear.]

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TIME WARNER

"Road Runner" is bringing online news and entertainment to Hawaii

www.timewarner.com

Building on the technological expertise of the DIGITAL/Microsoft Alliance, the Oceanic Division of Time Warner Cable is introducing a new high-speed, online news and entertainment service to the island of Oahu, Hawaii. Named for the famous Warner Bros. Looney Tunes character, Road Runner is super-fast, using fiberoptic cable to provide customers with a unique user-friendly online service and connectivity to the Internet at unparalleled speeds.

Road Runner seamlessly integrates local programming with national and international content. Subscribers will have connectionless, permanent access to a wealth of daily news sources from local media outlets, schools, libraries, government offices, museums, zoos and shopping services. Still photos that would choke a dial-up network will appear instantly over the broadband Internet.

The network is based on Microsoft's Internet Explorer browser and the Microsoft Commercial Internet System (MCIS). DIGITAL is providing planning, design and integration services, as well as DIGITALx86 Prioris servers and custom code to interface with Oceanic's customer care system. The result is a cost-effective, easily scalable, broadband Internet service that can support an exciting combination of news, entertainment and information.

Oceanic is one of Time Warner Cable's larger operations reaching 332,000 homes. According to Division President, Don Carroll, Oceanic's goal is "...to build real communities, not just ethereal cyber-communities. The day will come when the first thing you see when you go online with Road Runner will be news and information about your own neighborhood. You'll be able to check your children's school calendar, review proceedings of neighborhood board meetings and check for promotions and sales at the stores nearest your home.
The possibilities are limitless."

INTERNET:
CHANGING THE VERY DEFINITION

OF NETWORKING

THE INTERNET IS CHANGING EVERYTHING--EVEN THE VERY DEFINITION OF NETWORKING. MANY COMPANIES CLAIM TO BE "THE INTERNET COMPANY" OR EVEN THE INVENTOR OF NETWORKED COMPUTING.

While many of these companies have made significant contributions to Internet technology, DIGITAL was and is the leader in developing Internet solutions. We were the first computer company on the ARPANET, the forerunner of the Internet, and--as one of the original sponsors of Ethernet--we brought the network to the desktop. Today, DIGITAL has all the components--from implementation and integration services to high-capacity, high-performance servers--needed to support large-scale Internet and intranet applications. This leadership can't be challenged: of the Computerworld Premier 100 Internet sites, 73 use DIGITAL products.

The experience we've gained in working with companies who have built world-class Internet sites is one reason we can help other customers understand the implications of Internet technology. We're helping them apply this technology to their business needs and build intranets--private networks using Internet technology and communications.

We're helping customers build Web infrastructures with the capacity, reliability and security needed to conduct financial transactions and buy and sell everything from new homes and cars to personalized news reports. And, as new applications fuel the explosive growth of the Internet, we're working closely with Internet Service Providers and telecommunication companies to help them build and maintain the network.

INTERNET INTEGRATION, INFRASTRUCTURE AND OPERATIONS MANAGEMENT SERVICES As more and more businesses evolve into networked enterprises where employees, customers, business partners and suppliers share ideas and work together over the Internet and intranets, the need to reduce network support costs and ensure round-the-clock, 24x365 availability has become a priority.

DIGITAL Worldwide Services provide Internet Infrastructure Services, Network and Application Integration Services and Internet Operation Management Services to help customers plan, design, implement and manage intranet applications and Internet communications and commerce.

HIGH-PERFORMANCE, HIGH-AVAILABILITY INTERNET SERVERS No business wants its customers, partners or employees to experience repeated busy signals and "server not available" messages. The need for high-performance, high-availability Windows NT and UNIX servers is particularly critical for Internet Service Providers and companies building intranets or engaged in Internet Commerce.

To demonstrate the power and scalability of our Internet business solutions, DIGITAL established the AltaVista search service (http://www.altavista.digital.com). AltaVista has become one of the most popular sites on the World Wide Web. Each day, more than 30 million Internet users rely on AltaVista to quickly and easily find the information they're looking for. Driven by DIGITAL's powerful 64-bit AlphaServer technology, AltaVista gives users access to more than 31 million pages of information. This past year, AltaVista was enhanced with a new user interface that includes simple customization tools and a "refine" function, enabling users to focus their searches and obtain relevant results within seconds. A unique multilingual search feature was also added. Now users can search for Web pages written in any one of 25 languages--from Chinese to Swedish.

[Photograph of DIGITAL Prioris HX6000 series of x86 servers]

The DIGITAL Prioris HX6000 series of x86 servers delivers exceptional value in a "no compromise" package, combining state-of-the-art manageability, availability, performance, scalability and service. Data integrity and reliability are assured with high-availability system design including ECC EDO memory, redundant cooling, optional redundant power, integrated Hot-Swap drives and dual redundant backplane capabilities.

INFORMATION ACCESS, SECURITY AND INTERNET COMMERCE SOFTWARE Internet applications require specialized software. Without this software, the Internet becomes a tangled web where it is difficult to find the information you're looking for, where transactions can go astray and where hackers and viruses can bring your systems to a halt.

DIGITAL has addressed these issues. Our AltaVista family includes firewall, tunneling, indexing and desktop-to-Web search software for x86 Windows, Windows NT and Sun Solaris desktops and servers as well as Alpha systems running Windows NT and DIGITAL UNIX.

With DIGITAL Internet transaction processing software and the recent introduction of the advanced Millicent technology showcase, DIGITAL has the specialized software and associated services needed to support Internet Commerce. Millicent is the first cyber-commerce program that demonstrates how users can buy and sell information over the World Wide

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KVAERNER

BUILDING AN INTRANET TO LINK 40,000 EMPLOYEES AND 400 OFFICES WORLDWIDE

www.kvaerner.com

When Kvaerner--a multinational shipping and construction company with its roots in Norway and its international headquarters in London--wanted to link its worldwide subsidiaries, they named DIGITAL and Microsoft as their preferred vendors for Internet/intranet solutions throughout the enterprise.

Service and support were critical issues. Kvaerner wanted to deal with a service organization that had first-hand experience establishing and operating its own enterprise-wide intranet. They looked for a service organization that could demonstrate its ability to support a global enterprise and a user base comparable in size to their own.

With facilities thoroughout the world, DIGITAL Worldwide Services is positioned to work with Kvaerner subsidiaries on a one-to-one basis, while at the same time providing the coordination necessary to build a highly reliable and functional worldwide intranet based on Windows NT, Microsoft Internet Explorer and high-performance DIGITAL servers.

[Photograph of 64-bit AlphaServer 4000 system]

The 64-bit AlphaServer 4000 system is part of DIGITAL's complete family of ready-to-run Alpha and x86 Internet and intranet servers. Designed for round-the-clock, 24x365 operation, AlphaServer systems provide the high availability, data integrity and flexible scalability needed to support growing Internet applications.

Web at prices as low as a tenth of a cent. It makes "pay-per-click" surfing affordable for the user and opens a profitable new revenue stream for publishers who can now sell news and sports stories, fiction, features, financial reports and other information on a page-by-page basis.

To understand the potential of selling products and publishing information over the Internet, you only have to look at Amazon.com and PointCast. Amazon.com, the "electronic bookstore," has been growing 2,000 percent a year. Fortunately, Amazon.com uses AlphaServer systems that have the scalability to handle this growth for another 20 years.

PointCast is the leader in "push" technology, using the Internet to provide customized news and information services to millions of individual users, 24 hours a day. Like Amazon.com, PointCast depends on highly scalable AlphaServer systems to keep pace with its aggressive growth.

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VIRTUAL TELECOM, INC.

Providing Internet access in Switzerland and realtime financial information services across Europe

www.firstquote.com

Virtual Telecom recognized that its core business is providing value-added services over the Internet. The Swiss company wanted to provide Internet Service Providers instant access to the network through multiple high-speed communications links through a major Internet hub.

Under a multiyear, multimillion-dollar Operations Management Services contract, DIGITAL designed, implemented and is managing the Virtual Telecom network.

In addition to Internet access, Virtual Telecom's FirstSwiss service includes Web hosting, Web development, publishing and online catalog services. Virtual Telecom also provides 1stQuote, a comprehensive range of realtime financial data services over the Internet to banks, investment companies and brokerage houses throughout Europe.

The Virtual Telecom network features DIGITAL AltaVista firewall software at each point of presence to protect against unauthorized access and capitalizes on alliances with Swiss Telecom PTT and British Telecom for high-speed telecommunications services.

[Photograph of workers in a factory engaged in a manufacturing process]

SIEMENS (U.K.)

Building a scalable manufacturing control and management information system

www.siemens.co.uk

Service, support for both Windows NT and UNIX, solutions that are scalable from x86 desktops to Alpha clusters, strategic alliances with key software companies--these are reasons customers give for partnering with DIGITAL.

Siemens is no exception. When they set up a new semiconductor wafer manufacturing plant in the U.K., they needed a manufacturing system to control production processes, improve product quality, lower costs and reduce time-to-market. At the same time, they wanted a scalable mail and messaging system that would initially support up to 1,200 users and link their U.K. plant to other Siemens facilities in both Europe and North America.

In the DIGITAL solution, x86-based Prioris servers and UNIX-based AlphaServer systems work together to support CELLworks, Microsoft Exchange and Oracle database software. The DIGITAL solution enables Siemens to track work in progress to control inventories and ensure just-in-time delivery to its customers.

DIGITAL Worldwide Services played a key role in developing and implementing a scalable solution that would allow Siemens to add new users and applications to the network without interrupting work or replacing existing equipment.

WINDOWS NT: DELIVERING ENTERPRISE SOLUTIONS

AS CUSTOMERS LIKE THE NEW YORK MERCANTILE EXCHANGE, LOCKHEED MARTIN AND THE SOUTHERN COMPANY IMPLEMENT CLIENT/SERVER APPLICATIONS AND BUILD MAIL AND MESSAGING SYSTEMS TO SUPPORT TENS OF THOUSANDS OF USERS, THE CHALLENGE IS INTEGRATING THESE APPLICATIONS INTO EXISTING COMPUTING ENVIRONMENTS.

Integration is DIGITAL's strength. In fact, DIGITAL was ranked as the industry's top systems integrator by readers of Computerworld in its annual Customer Satisfaction Survey.

It is the need to integrate computing resources around a platform optimized for client/server and network computing that drives the rapid deployment of Windows NT. The trend is accelerating. According to International Data Corporation, the market for Windows NT systems, software and services will be an estimated $20.7 billion in the year 2000. DIGITAL intends to capture a significant share of this growing market.

THE ALLIANCE FOR ENTERPRISE COMPUTING Windows NT was designed for client/server environments. Under the Alliance for Enterprise Computing, DIGITAL and Microsoft are working together to provide products and services to support a single, integrated client/ server environment that extends from the desktop, across the enterprise and out over the whole world through Internet communications.

DIGITAL has built the largest Windows NT service and support organization in the world. We now have approximately 1,600 Microsoft certified systems engineers and solution developers--a number that soon will grow to 2,500. We developed software that supports the development of applications that will run across Windows NT, DIGITAL UNIX and OpenVMS systems. We introduced the first Windows NT clusters. And our x86 and AlphaServer systems own the benchmarks for Windows NT performance. In tests conducted by Pro/E: The Magazine, a DIGITAL Personal Workstation running Windows NT outperformed all workstations tested, regardless of Central Processing Unit architecture or operating system. In fact, it outperformed a similarly priced Sun system running UNIX by 171 percent.

Microsoft, for its part, is developing a 64-bit version of Windows NT for initial release on Alpha. But the relationship between the two companies extends beyond technology. It includes joint engineering, marketing, sales and service programs. Working in partnership, we've helped customers build user-focused enterprise systems and networks, and we have installed more than 500,000 Microsoft Exchange seats and have another 500,000 under contract.

[Photograph of DIGITAL HiNote VP laptop computer]

Winner of PC/Computing magazine's "Annual Torture Test" and designated the "Best Windows NT Hardware Product of the Year" by Windows Magazine, the DIGITAL HiNote VP family of laptop computers features the latest in MMX processor, graphics and removable media technologies.

"THIN CLIENTS"--REDUCING DESKTOP SUPPORT COSTS A whole new class of Internet devices is emerging that will enable people to access the Internet--anywhere, anytime. Collectively called "thin clients," these devices often combine cellular telephone, pager, fax, handwriting recognition and computing functions in a single unit. It would never have been possible to develop many of these new devices without high-performance microprocessors that will run on a battery. DIGITAL is leading the way. Our StrongARM microprocessor operates at speeds up to 250 million instructions per second while running on AA batteries. This is a two-to-one advantage in both absolute performance and price/ performance over competing microprocessors.

The concept of the "thin client" also addresses the cost of purchasing and supporting desktop and mobile systems in client/server networks where applications and/or data reside on a central server rather than on the client.

Because data processing controls the server, it can control software used by thin clients throughout select workgroups or the entire enterprise. There is no longer the problem of individual users running different versions of the same application. New software releases no longer have to be installed one desktop at a time. Data is centralized so it can be easily secured and backed up. The potential savings are significant.

WINDOWS NT SERVICE AND SUPPORT DIGITAL is the first computer company to offer a comprehensive set of life-cycle services focused on the growing demand for Windows NT and Microsoft Exchange migration, Internet and intranet solutions, and data warehousing using Microsoft SQL Server. In providing these services, DIGITAL intends to help customers decrease implementation time and lower costs.

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LOCKHEED MARTIN

Helping 120,000 users in 630 locations worldwide get the message

www.lmco.com

When Lockheed and Martin-Marietta merged to become one of America's largest civilian and military aerospace manufacturing and contracting companies, they needed a mail and messaging system with the muscle to support 120,000 users in 630 locations. They selected DIGITAL through a competitive process for an enterprise-wide Windows NT solution that is expected to reduce long-term costs by simplifying their messaging infrastructure and improving productivity.

Working with Microsoft, its partner in the Alliance for Enterprise Computing, DIGITAL is implementing the largest Microsoft Exchange network in the world. Running under Windows 95 and Windows NT, Microsoft Exchange provides a complete, highly functional mail and messaging system that includes address book, auto signature, remote mail and public folder functions. This last provides a forum where authorized members of a workgroup or product team can share information and ideas.

The DIGITAL/Microsoft solution for Lockheed Martin includes AlphaServer systems with DIGITAL's X.500 directory services software, Microsoft Windows NT and Exchange software, and DIGITAL program management, network design, implementation and ongoing support services.

[Photograph of DIGITAL Venturis FX-2 PC client]

DIGITAL's Venturis FX-2 PC client provides breakthrough performance at industry-standard prices with leading-edge features, including x86 MMX technology and DIGITAL ClientWORKS systems management and control software. This software provides powerful desktop management, asset management and configuration utilities.

We provide Internet/intranet enterprise services to help organizations understand the impact the Microsoft Merchant Server and the Microsoft Commercial Internet System will have on their businesses and help them successfully deploy and manage solutions for Internet Commerce.

SQL DATA WAREHOUSING As businesses migrate users and applications to client/server environments, they often find themselves with disparate data sources. DIGITAL is addressing this problem with the DIGITAL DataMart. This innovative combination of Microsoft SQL Server with products from Informatica Corporation and Business Objects SA provides the software and services needed to map Microsoft SQL server to industry-standard databases from Oracle, Informix and Sybase.

WINDOWS NT, FX!32 AND ALPHA Performance and scalability are critical issues in many enterprise networks and applications. DIGITAL supports Windows NT on both its x86 and Alpha platforms to provide the most extensive scalability in the industry. In addition, with DIGITAL FX!32 translation and emulation software, Alpha systems can run the entire library of Windows NT and Windows 95 applications.

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SOUTHERN COMPANY

America's largest electric utility powers up with Windows NT on DIGITAL server systems

www.southernco.com/site/home.asp

Deregulation is coming to the U.S. electric utility industry. That puts a premium on finding ways to improve customer service and cut costs. The Southern Company is responding to this changing marketplace by standardizing on Windows NT to gain a cost-effective solution.

The Southern Company network currently has more than 17,000 users and 500 NetWare servers from many different vendors. These are being replaced by DIGITAL Alpha and Prioris systems running Windows NT, Microsoft Exchange and SMS in a BackOffice environment.

As in many projects of this size, DIGITAL is working closely with Microsoft and its other business partners. Universal Data Consultants provided systems and network integration services for the Southern Company, while Wyle Electronics, a billion-dollar DIGITAL distribution partner, is delivering the DIGITAL systems on a "just-in-time" schedule.

[Photograph of a man on a telephone and another man viewing a screen in a room with multiple computer and television screens]

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OPTUS COMMUNICATIONS

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Caring for customers across the Australian continent while introducing new wireline, mobile, broadband and satellite services
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www.optus.com.au

"Convergence billing" --providing a single bill for local, long distance, mobile and cable-based local-loop telephone service, Internet access and cable TV--is the major customer care issue facing telecommunications companies as they introduce new services.

Using software developed by Kenan Systems, Optus Communications is one of the first telecommunications companies to deploy a UNIX-based billing system to support multiple communications services on an enterprise-wide basis. This high-performance hardware/software solution is capable of supporting 15 million residential subscribers in a production environment.

Running on DIGITAL Alpha systems, Kenan's Arbor/BP software owns the benchmark for online telecommunications billing and customer care, processing four million call details per hour.

Optus has been a major customer since 1992, when DIGITAL was initially selected as the prime contractor and system integrator for building the Operational Support Systems--the network operating, billing and administrative systems--needed to control and manage the Australia-wide telecommunications network.

DIGITAL UNIX AND OPENVMS: OWNING THE STANDARD FOR HIGH-PERFORMANCE 64-BIT COMPUTING

PERFORMANCE AND AVAILABILITY ARE ISSUES WHENEVER YOU HAVE LARGE OR COMPLEX APPLICATIONS, MASSIVE AMOUNTS OF DATA OR A NETWORK THAT SUPPORTS HUNDREDS OR EVEN THOUSANDS OF USERS. THESE ARE ISSUES THAT DIRECTLY AFFECT SOFTWARE DEVELOPERS AND SYSTEMS INTEGRATORS AS WELL AS USERS. CUSTOMERS ARE LOOKING FOR FULLY SUPPORTED HARDWARE/SOFTWARE SOLUTIONS THAT DELIVER THE PERFORMANCE, AVAILABILITY AND SCALABILITY TO MEET THEIR GROWING

NEEDS.

That's why systems integrators like Ernst & Young and Andersen Consulting and leading application developers like SAS, Platinum and Baan work in partnership with DIGITAL.

These companies recognize the need for 64-bit UNIX systems that can handle massive applications. DIGITAL UNIX systems enabled Schering-Plough's Health Products unit to implement a logistics program that saved the company two million dollars in inventory, transportation and accounts receivable costs. Alpha systems running Digital UNIX and SAP R/3 software enabled Danish Railways to implement a corporate-wide accounting and finance system.

Our partners also recognize the need for systems that deliver the very highest levels of reliability and availability. This is the strength of DIGITAL's OpenVMS operating system.

With 64-bit DIGITAL UNIX and OpenVMS systems, customers have a choice. And they have the opportunity to run their applications on the system that sets the standard for 64-bit computing--DIGITAL's Alpha platform.

ALPHA PERFORMANCE: TWO BILLION INSTRUCTIONS PER SECOND
High-performance computing starts with high-performance processors. Here DIGITAL has a clear-cut advantage. "AlphaPowered" systems push the envelope for high-performance technical computing, data warehousing, transaction processing and visual computing applications, including videoconferencing, 3-D modeling, video editing, multimedia authoring, image rendering and animation. With patented cache management, branch prediction and superscalar instruction execution technology, high-end Alpha microprocessors run at speeds of more than 600 MHz to execute more than two billion instructions per second.

[Photograph of Digital AlphaServer 8000 system]

AlphaServer 8000 systems support up to 14 symmetric multiprocessors, DIGITAL UNIX TruClusters, 28 gigabytes of memory and 39 terabytes of storage to provide better-than-mainframe and supercomputer performance. Business-critical applications include data warehousing, high-performance technical computing, sophisticated telecommunications applications and large-scale database management.

Alpha microprocessors are now available from both DIGITAL and its semiconductor partners. Mitsubishi and Samsung have joined DIGITAL in developing, manufacturing and marketing Alpha microprocessors to deliver performance leadership where performance counts.

DIGITAL UNIX, THE HIGH-PERFORMANCE OPERATING SYSTEM More than 50 percent of all DIGITAL UNIX customers are new customers because this 64-bit operating system--paired with AlphaServer systems--supports large-scale data warehousing, visual computing and other high-performance business, scientific and networking applications that could not be cost-effectively addressed by competitive systems. DIGITAL leads the industry in UNIX cluster performance. The transaction processing benchmark set in April 1996 on a four-node DIGITAL TruCluster system has not been matched by any other four-node cluster on the market.

HIGH-AVAILABILITY OPENVMS CLUSTERS FOR BUSINESS-CRITICAL APPLICATIONS DIGITAL pioneered the cluster concept in 1983 and continues to set the standard by which clustering and continuous computing solutions are measured. DIGITAL cluster technology provides bulletproof, round-the-clock, 24x365 disaster tolerance. It supports VAX and Alpha systems in mixed clusters, Windows NT clusters, multisite configurations within a 500-mile radius and online backup. In addition, DIGITAL cluster technology allows you to add processors, memory, storage and other devices to a DIGITAL server without interrupting ongoing processes.

In a recent review of cluster computing, an independent research organization, Technology Business Research, examined various features including scalability, availability, configuration flexibility, connectivity and applications support. The survey concluded that DIGITAL OpenVMS clusters continue to lead over Hewlett-Packard, IBM, NCR and Sun Microsystem clusters.

VERY LARGE MEMORY, VERY LARGE DATABASE APPLICATIONS As corporate networks embrace desktop systems throughout the enterprise and link to the worldwide Internet, there is an explosive growth in the forest of data residing within the enterprise. Unfortunately, growth in raw data is not always matched by growth in information. It becomes a case of not being able to see the trees (information) for the forest.

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THE PAUL SCHERRER INSTITUTE
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Supporting 70 to 80 concurrent research programs that
reach beyond the capabilities of a university department

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www.psi.ch

Under the auspices of the Board of Swiss Federal Institutes of Technology, the Paul Scherrer Institute in Villigen, Switzerland provides the computer infrastructure to support the research activities of its 1,100-person staff, including 370 scientists plus 500 to 800 guest scientists each year.

Unlike many commercial environments where applications and workloads are constant, research calls for maximum flexibility. Systems are constantly reconfigured and reprogrammed. This places a premium on systems that are modular, scalable and easy to program and configure.

Research also places a premium on high-capacity, flexible data storage. For example, the data generated from the Institute's proton therapy facility for cancer treatment must be retained and protected for at least a decade--as one program may open an avenue that spurs further research in a never-ending cycle. Realtime data collection for nuclear physics and material science investigations conducted on the Institute's particle accelerator also produce massive volumes of raw data that require online storage.

The Paul Scherrer Institute's DIGITAL UNIX, OpenVMS Cluster and DIGITAL StorageWorks systems provide the capacity and flexibility needed in a scientific environment. This type of interoperability, high-availability and raw performance is critical in realtime and large-scale research programs.

[Photograph of Digital Personal Workstation]

DIGITAL Personal Workstations offer outstanding performance, a choice of operating systems, leading 3-D graphics and the industry's only CISC-to-RISC upgrade. For Windows NT users, DIGITAL offers the i-Series, which features Intel Pentium Pro processors, or the a-Series, which is built on the super-powerful DIGITAL Alpha processors. For the most demanding UNIX applications, the au-Series features DIGITAL Alpha processors running DIGITAL UNIX.

Our business partners are addressing this problem. Oracle, Sybase, Informix, Software AG and other database software companies have developed database solutions that capitalize on DIGITAL 64-bit Very Large Memory (VLM) and Very Large Database (VLDB) technology. These applications run at blinding speed. For example, with Oracle 64-bit database software, some applications will run up to 200 times faster on an AlphaServer system than they can on the fastest 32-bit systems.

WINDOWS NT INTEGRATION Through the DIGITAL Windows NT integration program, corporate customers and software developers can converge on a source code base, an interoperable middleware base and a single developmental tool set for all DIGITAL UNIX, OpenVMS and Windows NT applications.

WORLDWIDE SERVICE AND SUPPORT Planning, designing, implementing, managing and maintaining high-performance enterprise systems and networks can be a daunting task requiring the ability and patience to deal with multiple systems, software and communications vendors.

In many cases, business solutions must be deployed around the world. This requires sophisticated software and worldwide support services. DIGITAL and Computer Associates formed the Alliance for Enterprise Management to create a standard, unified, enterprise management environment across DIGITAL UNIX, OpenVMS, Windows NT and legacy mainframe systems.

DIGITAL and MCI formed a formal alliance to help businesses utilize Internet technology and communications and build corporate intranets.

Like a growing number of customers, our business partners recognize that DIGITAL's strengths in Internet connectivity, Windows NT integration and high-performance computing are key to "Winning in a Networked World."

BEST WESTERN HOTELS

Building a reservation system that knows your personal preferences

www.bestwestern.com

Best Western International, Inc. knows how personal service can attract and keep customers. They've built a reservation system that knows your personal preferences and keeps track of every reservation and every one of the nearly 300,000 rooms throughout the Brand. This is a big job. Best Western International, Inc. operates almost 3,700 hotels in 73 countries and territories throughout the world.

The reservation system is based on DIGITAL AlphaServer systems using VLM (Very Large Memory) technology and an Oracle7 database.

With this new system, any desk clerk or travel agent can instantly book and confirm room reservations at any Best Western Hotel.

The system provides business and leisure travelers with the kind of personal service that translates into a higher occupancy rate--and high occupancy means higher revenue. In fact, Best Western International, Inc. expects that their new reservation system will generate $50 million in additional revenue.

DELIVERING ON THE PROMISE: THE INTERNET, OUR CHILDREN AND THE ENVIRONMENT

AS A LEADER IN THE DEVELOPMENT OF THE INTERNET, DIGITAL HAS A RESPONSIBILITY TO HELP CREATE A WORLD WHERE INFORMATION AND IDEAS CAN BE FREELY EXCHANGED.

This past year, we took a leadership role in NetDay, an innovative program to provide students and teachers with access to the Internet. We donated servers, PCs and networking packages to schools where DIGITAL volunteers invested their own time and energy wiring and installing systems.

This kind of involvement is not new. As we celebrate our 40th Anniversary, we continue to support innovative programs designed to make this a better world for the next generation. This past year, through our Worldwide Children and Youth Initiative, we awarded cash grants to 70 local children's charities in 27 countries.

But our responsibility goes beyond helping children achieve their potential. We want every child to enjoy a healthy environment. DIGITAL's corporate Environment, Health and Safety (EHS) policy statement, "Earth Vision," provides the framework for action. For example, we operate Materials Recovery facilities in Contoocook, New Hampshire and Nijmegen, the Netherlands to demanufacture 28 million pounds of discarded electronic equipment every year. Intact parts are removed, tested and stocked as spares. Gold, platinum and silver are extracted and resold. Plastic, glass and other materials are recycled. Less than one-tenth of one percent of the material ends up in landfills. The Contoocook facility is one of the first 20 organizations in the U.S. to win ISO 14001 certification for demanufacturing.

Another example of DIGITAL's commitment to the environment was our part in establishing a unique, free-access educational Web site (http://www.endangeredzone.com) with high-quality images and searchable information about endangered species around the world. Developed in partnership with Oracle and Virage Inc., the Web site incorporates an Oracle8 database to create dynamic pages so children can build a personalized field journal of information for research reports, study guides or extracurricular projects.

Programs like these demonstrate our belief that we can make a difference; that as individuals and as a company we can use our talents and technology to make this a better world.

[Photograph of several people who volunteered for the City Year service project.]

DIGITAL is a national founder of City Year, a service corps that brings young adults from diverse cultural, educational and socioeconomic backgrounds together for full-time community service. During its annual conference held in Boston, DIGITAL employees (in maroon shirts, left to right: Kathy Coyle, Kate Seibert, Lew Karabatsos and Jim Gray) joined City Year corps members to help landscape the grounds of an inner-city school.
(Photo credit: Chris Johnson)

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ELEVEN-YEAR FINANCIAL SUMMARY

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(dollars in millions except per share data and stock prices)	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>
STATEMENTS OF OPERATIONS(1)				
Product sales	$ 7,197	$ 8,362	$ 7,616	$ 7,191
Service revenues	5,850	6,200	6,197	6,260
Total operating revenues	13,047	14,563	13,813	13,451
Cost of product sales and service expense	8,725	9,756	9,392	8,912
Research and engineering expenses	1,014	1,062	1,040	1,301
Selling, general and administrative expenses(2)	3,177	3,859	3,266	5,234
Operating income/(loss)	130	(115)	115	(1,996)
Other (income)/expense, net(3)	(48)	(48)	40	24
Income/(loss) before income taxes and cumulative effect of changes in accounting principles	178	(68)	76	(2,020)
Provision for income taxes	37	44	18	85
Net income/(loss)(4)	$ 141	$ (112)	$ 122	$ (2,156)
Net income/(loss) applicable per common share(4)	$ .68	$ (.97)	$ .59	$ (15.80)

HP-000304

Weighted average shares outstanding (in millions)	155	152	146	137
FINANCIAL POSITION				
Inventories	$ 1,503	$ 1,821	$ 2,054	$ 2,064
Accounts receivable, net of allowances	2,930	3,223	3,219	3,319
Working capital	3,035	3,188	3,026	1,832
Net property, plant and equipment	2,104	2,223	2,269	3,129
Total assets	9,693	10,075	9,947	10,580
Long-term debt	743	999	1,013	1,011
Stockholders' equity	3,545	3,606	3,528	3,280
Stockholders' equity per common share	20.81	20.62	20.89	20.24
RATIOS AND OTHER INFORMATION				
Current ratio	1.7:1	1.8:1	1.7:1	1.4:1
Quick ratio	1.3:1	1.2:1	1.1:1	.9:1
Debt/debt plus equity	22.1%	22.0%	22.5%	24.1%
Operating income/(loss) as a percentage of revenues	1.0%	(.3)%	.8%	(14.8)%
Net income/(loss) as a percentage of revenues	1.1%	(.8)%	.9%	(16.0)%
Return on equity	3.9%	(3.1)%	3.6%	(52.8)%
Return on assets	1.4%	(1.1)%	1.2%	(20.0)%
Non-U.S. revenues as a percentage of total revenues	67%	66%	65%	62%
Days sales outstanding	76	78	77	76
Number of employees at year-end	54,900	59,100	61,700	77,800
Number of shares outstanding at year-end (in millions)	151	156	150	142
Common stock yearly high and low sales prices	$ 47-25	$ 76-35	$ 49-18	$ 43-18

</TABLE>

(1) Amounts may not be additive due to rounding.

(2) Includes restructuring charges of $492M in 1996, $1,206M in 1994, $1,500M in 1992, $1,100M in 1991 and $550M in 1990. Includes reduction in carrying value of intangible assets of $310M in 1994.

<TABLE>
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1993	1992	1991	1990	1989	1988	1987
<S>	<C>	<C>	<C>	<C>	<C>	<C>
$ 7,588	$ 7,696	$ 8,299	$ 8,146	$ 8,190	$ 7,541	$ 6,254
6,783	6,235	5,612	4,797	4,552	3,934	3,135
14,371	13,931	13,911	12,943	12,742	11,475	9,389
8,631	8,132	7,278	6,795	6,242	5,468	4,514
1,530	1,754	1,649	1,614	1,525	1,306	1,010
4,447	6,181	5,572	4,521	3,639	3,066	2,253
(237)	(2,136)	(588)	13	1,336	1,635	1,612
(13)	(57)	(68)	(111)	(85)	(106)	(77)
(224)	(2,078)	(520)	124	1,421	1,741	1,689
27	232	97	50	348	435	552
$ (251)	$ (2,796)	$ (617)	$ 74	$ 1,073	$ 1,306	$ 1,137
$ (1.93)	$ (22.39)	$ (5.08)	$ .59	$ 8.45	$ 9.90	$ 8.53
130	125	122	125	127	132	133
$ 1,755	$ 1,614	$ 1,595	$ 1,538	$ 1,638	$ 1,575	$ 1,453
3,020	3,594	3,317	3,207	2,965	2,592	2,312
2,964	2,015	3,777	4,332	4,501	4,516	4,377
3,178	3,570	3,778	3,868	3,646	3,095	2,127
10,950	11,284	11,875	11,655	10,668	10,112	8,407
1,018	42	150	150	136	124	269

4,885	4,931	7,624	8,182	8,036	7,510	6,294
36.19	38.58	61.18	66.76	66.12	59.47	49.87
1.8:1	1.4:1	2.0:1	2.3:1	2.9:1	2.9:1	3.4:1
1.2:1	1.0:1	1.4:1	1.6:1	1.9:1	2.0:1	2.4:1
17.5%	1.8%	2.2%	2.0%	2.0%	3.6%	4.2%
(1.7)%	(15.3)%	(4.2)%	.1%	10.5%	14.2%	17.2%
(1.7)%	(20.1)%	(4.4)%	.6%	8.4%	11.4%	12.1%
(5.1)%	(44.5)%	(7.8)%	.9%	13.8%	18.9%	18.9%
(2.3)%	(24.1)%	(5.2)%	.7%	10.3%	14.1%	14.6%
64%	63%	60%	56%	55%	50%	47%
69	83	76	86	76	75	78
89,900	107,900	115,100	116,900	118,400	113,900	103,000
135	128	125	123	122	126	126
$ 49-30	$ 72-33	$ 87-45	$ 103-70	$ 122-86	$ 199-99	$ 174-82

</TABLE>

(3) See Note A of Notes to consolidated financial statements.

(4) The cumulative effect of changes in accounting principles were: a one-time benefit of $65M, or $.44 per share, on net income and net income per share for fiscal 1995; a one-time charge of $71M, or $.51 per share, and a one-time benefit of $20M, or $.14 per share, on net loss and net loss per share for fiscal 1994; and a one-time charge of $485M or $3.89 per share on net loss and net loss per share in fiscal 1992.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

REVENUES

In fiscal 1997, total operating revenues were $13.1 billion, a decrease of $1.5 billion or 10% following an increase of $750 million or 5% and $362 million or 3% in fiscal 1996 and 1995, respectively. Non-U.S. revenues accounted for 67% of total operating revenues in fiscal 1997, up from 66% and 65% in fiscal 1996 and 1995, respectively (see Note B).

<TABLE>
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Revenues (dollars in billions)

Fiscal year	1997	1996	1995
<S>	<C>	<C>	<C>
Product sales	$ 7.2	$ 8.4	$ 7.6
% of total revenues	55%	57%	55%
Service revenues	$ 5.9	$ 6.2	$ 6.2
% of total revenues	45%	43%	45%
Total revenues	$13.1	$14.6	$13.8

</TABLE>

Revenues from product sales for fiscal 1997 were $7.2 billion, compared with $8.4 billion and $7.6 billion in fiscal 1996 and 1995, respectively. The decline in product sales in fiscal 1997 reflects the adverse effects of currency rate movements, the discontinuation of the retail personal computer and certain component product lines, as well as an anticipated reduction in inventories in distribution channels.

Alpha-based systems revenues represented 32% of fiscal 1997 product sales, up from 29% in fiscal 1996 and 22% in fiscal 1995. For fiscal 1997, Alpha-based systems revenues decreased 4%, compared with an increase of 46% and 76% in fiscal 1996 and 1995, respectively. The decline was due principally to a decrease in desktop product (client) sales, partially offset by an increase in server revenues. Revenue from Intel-based computers represented 28% of fiscal 1997 product sales, up from 26% in both fiscal 1996 and 1995. The increase was due principally to growth in server revenues. The Corporation's other product businesses represented 40%, 45% and 52% of product sales in fiscal 1997, 1996 and 1995, respectively. These revenues continue to represent a smaller portion of product sales, reflecting the withdrawal from certain non-strategic businesses, the transition from VAX systems, and a decline in network products sales in fiscal 1997 compared with fiscal 1996, partially offset by an increase in storage subsystem revenues.

In fiscal 1997, service revenues were $5.9 billion, down from $6.2 billion for both fiscal 1996 and 1995. The decline in service revenues was due principally to the adverse effects of currency rate movements, an anticipated decline in the Digital products maintenance business, as well as the strategic refocusing of the Corporation's systems integration business, partially offset by growth in multivendor services and operations management services.

The Corporation's operating results in fiscal 1997 were adversely impacted by the continued strengthening of the U.S. dollar. Removing the effects of foreign currency exchange rate movements, the decline in revenue for fiscal 1997 would have been 7%, compared with 10% as reported. The net effect of foreign currency exchange rate movements on revenues was insignificant in fiscal 1996 when compared with fiscal 1995.

During fiscal 1997, the Corporation sold certain software products and other assets. The Corporation continues to sell certain of these software products under royalty agreements. Revenues from the software products sold by the Corporation had an immaterial impact on consolidated operating revenues. During fiscal 1996, the Corporation sold its learning services business and several small businesses. During fiscal 1995, the Corporation sold portions of its storage business, its relational database business, a software distribution subsidiary, a contract manufacturing business and a semiconductor facility. In addition, as part of the Corporation's restructuring actions, the Corporation transferred part of its business in Germany to a new, independent, employee-owned company, effective October 1, 1994. In fiscal 1994, the divested businesses represented 8% of consolidated operating revenues and did not have a material effect on the consolidated net loss from operations (see Note J).

- --

DOMESTIC AND NON-U.S. REVENUES
* Domestic   @ Non-U.S.
Dollars in billions

[BAR CHART]

EXPENSES AND PROFIT MARGINS

- --

The Corporation's total gross margin for fiscal 1997 was 33% of total operating revenues, unchanged from fiscal 1996 and up from 32% in fiscal 1995.

<TABLE>
<CAPTION>

Gross margin (dollars in billions)

Fiscal year	1997	1996	1995
<S>	<C>	<C>	<C>
Product sales	$ 2.5	$ 2.8	$ 2.2
% of related revenues	35%	34%	29%
Service revenues	$ 1.8	$ 2.0	$ 2.2
% of related revenues	31%	32%	36%

</TABLE>

The Corporation's gross margin on fiscal 1997 product sales was 35%, compared with 34% and 29% of product sales for fiscal 1996 and 1995, respectively. The continued improvement in product gross margin was due principally to manufacturing cost efficiencies and improved cycle times, an increased proportion of higher-margin server revenues, and the effect of more competitive product offerings.

Gross margin on service revenues was 31% in fiscal 1997, compared with 32% and 36% of service revenues for fiscal 1996 and 1995, respectively. The decline in service gross margin in fiscal 1997 and fiscal 1996 compared with the prior year was due principally to improved product reliability, investments in service delivery capabilities and the continued shift in the mix of service revenues toward lower-margin service offerings. During fiscal 1997, service gross margins stabilized for the first time since fiscal 1994.

<TABLE>
<CAPTION>

Operating expenses (dollars in billions)

Fiscal year	1997	1996	1995
<S>	<C>	<C>	<C>
Research & engineering expenses	$ 1.0	$ 1.1	$ 1.0
% of total revenues	8%	7%	8%
Selling, general and administrative expenses	$ 3.2	$ 3.4	$ 3.3
% of total revenues	24%	23%	24%
Restructuring charges	--	$ 0.5	--
% of total revenues	--	3%	--

</TABLE>

Research and engineering (R&E) spending totaled $1.0 billion for fiscal 1997, compared with $1.1 billion and $1.0 billion in fiscal 1996 and 1995, respectively. The slight decrease in R&E expenses in fiscal 1997 was due principally to the Corporation's withdrawal from certain non-strategic businesses and the elimination of related development costs (see Note J). The Corporation believes that its level of R&E spending is appropriate to support current operations and to offer competitive, market-driven products.

Selling, general and administrative (SG&A) expenses totaled $3.2 billion, down from $3.4 billion in fiscal 1996 and $3.3 billion in fiscal 1995. The decline in fiscal 1997 SG&A expenses reflects reductions in population and facilities expenditures, reduced variable costs and the positive effects of currency rate movements, partially offset by increases in salaries and wages and investment in demand generation activities. The Corporation's efforts to achieve a competitive cost structure and further increase productivity are ongoing. For fiscal 1996, SG&A expenses reflected increased variable costs associated with higher revenue levels, increases in salaries and wages and administrative systems investments, partially offset by the favorable effects of restructuring actions taken in the first half of fiscal 1995.

During fiscal 1997, the Corporation amended its U.S. postretirement medical plan, changing the eligibility requirement, and therefore the period over which benefits are earned and accrued. As a result of the amendment, the Corporation recognized a one-time curtailment gain of $52 million (see Note G). In addition, the shift of employees to managed care and other factors had a significant favorable impact on the Corporation's postretirement medical expense during fiscal 1997. The impact of these items was substantially offset by the write-off of certain intangible assets and other provisions.

At the end of fiscal 1996, the Corporation approved a restructuring plan intended to increase sales productivity, further consolidate manufacturing plants and distribution sites, improve service delivery and further reduce overhead in support areas. The planned employee separations are expected to be substantially complete in fiscal 1998. The number of involuntary separations is expected to be lower than originally planned due principally to a higher than anticipated level of voluntary separations. However, associated restructuring-related cost savings are expected to be offset by an increase in estimated separation costs for certain non-U.S. employees. The total estimated cost of restructuring actions is unchanged. See Note E for a further description of the Corporation's restructuring actions and related costs.

Total employee population decreased by 4,200 during fiscal 1997 to approximately 54,900. The Corporation had approximately 59,100 and 61,700 employees at the end of fiscal 1996 and 1995, respectively.

EXPENSES AND PROFIT MARGINS (continued)

- --

Net other income was $48 million for fiscal 1997 and 1996, respectively, compared with net other expense of $40 million in fiscal 1995. Net gains on divestments were $18 million for fiscal 1997, compared with $72 million in fiscal 1996 and a net loss of $7 million in fiscal 1995. The decrease in net gains from divestments in fiscal 1997 was offset by increased interest income resulting from significantly higher cash and short-term investment balances and lower interest expense.

In fiscal 1997, income tax expense was $37 million on pre-tax income of $178 million. Income tax expense reflects several factors, including income taxes for profitable operations, benefits taken from net operating loss carryforwards and an inability to recognize currently certain tax benefits from operating losses. Income tax expense was $44 million on a pre-tax loss of $68 million in fiscal 1996 and $18 million on pre-tax income of $76 million in fiscal 1995. See Note C for a further explanation of income tax expense.

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130--Reporting Comprehensive Income. SFAS No. 130 requires the reporting and display, in a full set of general-purpose financial statements, of all items that are required to be recognized under accounting standards as components of comprehensive income. SFAS No. 130 is effective for financial statements issued for periods beginning after December 15, 1997 and reclassification of financial statements for earlier periods for comparative purposes is required. The adoption of SFAS No. 130 will have an immaterial impact on the consolidated financial statements.

In February 1997, the FASB issued SFAS No. 128--Earnings per Share. SFAS No. 128 establishes standards for computing and presenting earnings per share (EPS) and requires a dual presentation of basic and dilutive EPS. SFAS No. 128 is effective for financial statements issued for periods ending after December 15, 1997 and earlier adoption is not permitted. Neither basic nor dilutive EPS as calculated in accordance with SFAS No. 128 would be materially different from primary EPS as presented in these financial statements.

In January 1997, the Securities and Exchange Commission issued Financial Reporting Release No. 48 which expands disclosure requirements for certain derivative and other financial instruments. The Corporation adopted the sensitivity analysis approach effective in the fourth quarter of fiscal 1997. The sensitivity analysis approach presents the hypothetical change in fair value resulting from hypothetical changes in market rates. See Notes A and I for a description of the Corporation's use of derivative and other financial instruments and the related market risk.

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OPERATING EXPENSES
Dollars in billions, excluding restructuring charges

[BAR CHART]

- --

EMPLOYEES
Thousands of employees

[BAR CHART]

- --

U.S. DOLLAR RELATIVE TO MAJOR FOREIGN CURRENCIES
Fiscal 1991 equals 1.00

[BAR CHART]

AVAILABILITY OF FUNDS TO SUPPORT CURRENT AND FUTURE OPERATIONS AND SPENDING FOR OPERATIONS

Cash, cash equivalents and short-term investments totaled $2.5 billion, $2.0 billion and $1.6 billion at the end of fiscal 1997, 1996 and 1995, respectively (see Note A).

Cash flows from (in billions)

Fiscal year	1997	1996	1995
Operating activities	$ 1.0	$ 0.6	$(0.3)
Investing activities	(1.2)	(0.5)	0.6
Operating and investing activities	(0.2)	0.1	0.3
Financing activities	(0.2)	0.2	0.1
Total cash flows	$(0.4)	$ 0.3	$ 0.4

Net cash generated from operating activities was $1.0 billion in fiscal 1997, compared with $602 million in fiscal 1996 and net cash used of $348 million in fiscal 1995. The $424 million improvement in cash generated from operating activities in fiscal 1997 was principally due to a $293 million decrease in accounts receivable in fiscal 1997 compared with an increase of $4 million in fiscal 1996 and a $318 million decrease in inventories in fiscal 1997 compared with a decrease of $181 million in fiscal 1996. The $950 million improvement in cash generated from operating activities in fiscal 1996 was principally due to a $181 million decrease in inventories in fiscal 1996 compared with an increase of $272 million in fiscal 1995, and a lower level of restructuring related expenditures in fiscal 1996 compared with fiscal 1995.

Net cash used for investing activities was $1.2 billion in fiscal 1997, compared with $492 million in fiscal 1996 and net cash generated (including divestments) of $638 million in fiscal 1995. The increase in cash used for investing activities was due principally to short-term investment activities (see Note A). The Corporation increased its short-term investments by $913 million, $177 million and $31 million in fiscal 1997, 1996 and 1995, respectively. In fiscal 1997, the sale of property, plant and equipment and other assets generated proceeds of approximately $120 million. Capital spending in fiscal 1997 was $396 million compared with $431 million and $366 million in fiscal 1996 and 1995, respectively. In fiscal 1996, the Corporation sold its learning services business and several small businesses generating proceeds of $156 million and the sale of property, plant and equipment generated an additional $73 million in cash. In fiscal 1995, the Corporation sold all of its shares of Ing. Olivetti & C. S.p.A. common stock, portions of its storage business, its relational database business, a software distribution subsidiary, a contract manufacturing business, a semiconductor facility, property, plant and equipment and other assets generating approximately $1.1 billion in cash proceeds (see Note J).

Net cash used for financing activities was $254 million in fiscal 1997, compared with net cash generated of $150 million and $100 million in fiscal 1996 and 1995, respectively. The principal financing activity for fiscal 1997 was the open market purchase of 10 million shares of the Corporation's common stock for $354 million and the payment of dividends on preferred stock, partially offset by the issuance of stock under the Corporation's employee stock plans. In July 1997, the Corporation's Board of Directors authorized the repurchase, as conditions warrant, of up to 15 million shares of the Corporation's common stock.

Long-term debt was $743 million at the end of fiscal 1997, compared with

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approximately $1.0 billion at the end of fiscal 1996 and 1995. During fiscal 1997, $250 million of five-year notes due in November 1997 were reclassified from long-term debt to current portion of long-term debt. At the end of fiscal 1997, substantially all of the Corporation's available lines of credit and accounts receivable securitization facilities were unused (see Note F).

For fiscal 1997, cash expenditures for restructuring activities were $184 million, net of proceeds of $67 million from the sale of properties. Future cash expenditures for currently planned restructuring activities are estimated to be $360 million for fiscal 1998 and beyond, the majority of which will be used in fiscal 1998. While expected total cash expenditures for restructuring actions remain unchanged, actual cash outlays have been delayed due to the timing of certain employee separations, principally in Europe (see Note E).

The Corporation's need for, cost of and access to funds are dependent on future operating results, as well as conditions external to the Corporation. The Corporation historically has maintained a conservative capital structure, and believes that its cash position and its sources of and access to capital markets are adequate to support current operations.

FACTORS THAT MAY AFFECT FUTURE RESULTS

From time to time, information provided by the Corporation or statements made by its employees may contain "forward-looking" information, as that term is defined in the Private Securities Litigation Reform Act of 1995 (the "Act"). The Corporation cautions investors that there can be no assurance that actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors, including but not limited to the following:

* The Corporation's future operating results are dependent on its ability to develop, produce and market new and innovative products and services. There are numerous risks inherent in this complex process, including rapid technological change, the Corporation's ability to access components and related technical information from other companies and the requirement that the Corporation bring to market in a timely fashion new products and services which meet customers' changing needs.

* Historically, the Corporation has generated a disproportionate amount of its operating revenues toward the end of each quarter, making precise prediction of revenues and earnings particularly difficult and resulting in risk of variance of actual results from those forecast at any time. In addition, the Corporation's operating results historically have varied from fiscal period to fiscal period; accordingly, the Corporation's financial results in any particular fiscal period are not necessarily indicative of results for future periods.

* The Corporation offers a broad variety of products and services to customers around the world. Changes in the mix of products and services comprising revenues could cause actual operating results to vary from those expected.

* The Corporation's success is partly dependent on its ability to successfully predict and adjust production capacity to meet demand, which is partly dependent upon the ability of external suppliers to deliver components at reasonable prices and in a timely manner; capacity or supply constraints, or unexpected increases or decreases in the prices of components, could adversely affect future operating results.

* While the Corporation believes that the materials required for its manufacturing operations are presently available in quantities sufficient to meet demand, the failure of a significant supplier to deliver certain components or technical information on a timely basis or in sufficient quantities could adversely affect the Corporation's future results of operations.

* The Corporation operates in a highly competitive environment which includes

significant competitive pricing pressures and intense competition for skilled employees. Particular business segments may from time to time experience unanticipated intense competitive pressure, possibly causing operating results to vary from those expected.

* The Corporation offers its products and services directly and through indirect distribution channels. Changes in the financial condition of, or the Corporation's relationship with, distributors and other indirect channel partners, as well as fluctuations in end-user sales by indirect sales channel partners, could cause actual operating results to vary from those expected.

* The Corporation does business worldwide in over 100 countries. Global and/or regional economic factors and potential changes in laws and regulations affecting the Corporation's business, including without limitation, currency fluctuations, changes in monetary policy and tariffs, and federal, state and international laws regulating the environment, could impact the Corporation's financial condition or future results of operations.

* As the Corporation continues to implement its strategic plan and respond to external market conditions, there can be no assurance that additional restructuring actions will not be required. With regard to completion of planned restructuring actions, there can be no assurance that the estimated cost of such actions will not change.

* The market price of the Corporation's securities could be subject to fluctuations in response to quarter to quarter variations in operating results, changes in analysts' earnings estimates, market conditions in the information technology industry, as well as general economic conditions and other factors external to the Corporation.

REPORT OF MANAGEMENT

- --

The Corporation's management is responsible for the preparation of the financial statements in accordance with generally accepted accounting principles and for the integrity of the financial data included in this annual report. In preparing the financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

Management maintains a system of internal accounting controls that is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with the Corporation's policies. This system includes policies which require adherence to ethical business standards and compliance with all laws to which the Corporation is subject. The internal controls process is continuously monitored by direct management review and an internal audit program under which periodic independent reviews are made.

The Corporation's independent accountants annually review the accounting and control systems of the Corporation. Their audit includes a review of the internal control structure to the extent they consider necessary and selective tests of transactions to support their report.

The Board of Directors, through its Audit Committee, which is composed of four Board members who are independent of management, is responsible for determining that management fulfills its responsibility with respect to the Corporation's financial statements and the system of internal accounting controls.

The Audit Committee meets regularly with representatives of management, the independent accountants and the Corporation's internal auditors to review audits, financial reporting and internal control matters, and when appropriate, meets with the Corporation's outside counsel on relevant matters. The independent accountants and the internal auditors have full and free access to the Audit Committee and regularly meet privately with the Audit Committee.

Coopers & Lybrand L.L.P., independent accountants, have been engaged by the Audit Committee of the Board of Directors, with the approval of the stockholders, to audit the Corporation's financial statements. Their report follows.

/s/ Robert B. Palmer

Robert B. Palmer
Chairman of the Board,
President and Chief Executive Officer

/s/ Vincent J. Mullarkey

Vincent J. Mullarkey
Vice President, Finance and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Directors,
Digital Equipment Corporation

We have audited the accompanying consolidated balance sheets of Digital Equipment Corporation as of June 28, 1997 and June 29, 1996, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three fiscal years in the period ended June 28, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digital Equipment Corporation as of June 28, 1997 and June 29, 1996, and the consolidated results of its operations and cash flows for each of the three fiscal years in the period ended June 28, 1997, in conformity with generally accepted accounting principles.

As discussed in Note J to the consolidated financial statements, the Corporation changed its method of accounting for certain investments in debt and equity securities in fiscal 1995.

/s/ Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.

Boston, Massachusetts
July 24, 1997

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

(in thousands except per share data)

Year ended	JUNE 28, 1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
REVENUES (Notes A and B)			
Product sales	$ 7,197,116	$ 8,362,423	$ 7,616,441
Service revenues	5,849,716	6,200,352	6,196,621
Total operating revenues	13,046,832	14,562,775	13,813,062
COSTS AND EXPENSES (Notes A, D, G, H and K)			
Cost of product sales	4,697,438	5,541,792	5,397,723
Service expense	4,027,690	4,214,412	3,993,970

Research and engineering expenses (Note J)	1,014,044	1,062,253	1,040,028
Selling, general and administrative expenses (Note J)	3,177,428	3,367,806	3,265,743
Restructuring charge (Note E)	--	492,000	--
Operating income/(loss)	130,232	(115,488)	115,598
Other (income)/expense, net (Notes A, F, I and J)	(47,818)	(47,961)	39,941
Income/(loss) before income taxes and cumulative effect of change in accounting principle	178,050	(67,527)	75,657
Provision for income taxes (Note C)	37,175	44,285	18,342
Income/(loss) before cumulative effect of change in accounting principle	140,875	(111,812)	57,315
Benefit due to cumulative effect of change in accounting principle, net of tax (Note J)	--	--	(64,503)
NET INCOME/(LOSS)	140,875	(111,812)	121,818
Dividends on preferred stock (Note L)	35,500	35,500	35,500
Net income/(loss) applicable to common stock	$ 105,375	$ (147,312)	$ 86,318
PER COMMON SHARE (Note A)			
Income/(loss) applicable before cumulative effect of change in accounting principle	$ .68	$ (.97)	$ .15
Benefit due to cumulative effect of change in accounting principle	--	--	.44
NET INCOME/(LOSS) APPLICABLE PER COMMON SHARE (Note A)	$ .68	$ (.97)	$ .59
Weighted average common shares outstanding (Note A)	155,458	152,052	146,331

</TABLE>

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

(dollars in thousands)

	JUNE 28, 1997	June 29, 1996
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents (Note A)	$1,358,750	$ 1,791,754
Short-term investments (Note A)	1,160,265	247,404
Accounts receivable, net of allowances of $263,763 and $182,033	2,930,014	3,223,293
Inventories (Note A)	1,503,145	1,820,811
Prepaid expenses, deferred income taxes and other current assets (Note C)	324,122	336,836
Total current assets	7,276,296	7,420,098
Net property, plant and equipment (Note A)	2,103,647	2,222,920
Other assets (Notes A, C, and D)	312,951	432,363
Total assets	$9,692,894	$10,075,381
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank loans and current portion of long-term debt (Note F)	$ 262,835	$ 17,896
Accounts payable	871,760	903,618
Income taxes payable (Note C)	101,286	79,528
Salaries, wages and related items	637,587	632,413
Deferred revenues and customer advances (Note A)	1,079,003	1,099,328
Accrued restructuring costs (Note E)	382,559	619,416
Other current liabilities	905,900	879,434
Total current liabilities	4,240,930	4,231,633
Long-term debt (Note F)	743,440	999,131

Postretirement and other postemployment benefits (Note G)	1,163,568	1,238,411
Total liabilities	6,147,938	6,469,175
Commitments and contingencies (Note H)		
Stockholders' equity (Notes K, L and M):		
Preferred stock, $1.00 par value (liquidation preference of $100 per share); authorized 25,000,000 shares; 4,000,000 shares of Series A 8 7/8% Cumulative Preferred Stock issued and outstanding	4,000	4,000
Common stock, $1.00 par value; authorized 450,000,000 shares; 157,232,104 shares issued and 155,504,284 shares issued and outstanding	157,232	155,504
Additional paid-in capital	3,835,697	3,764,224
Retained deficit	(234,841)	(317,522)
Treasury stock at cost; 6,132,201 shares and 0 shares	(217,132)	-
Total stockholders' equity	3,544,956	3,606,206
Total liabilities and stockholders' equity	$9,692,894	$10,075,381

</TABLE>

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

(in thousands)

Year ended	JUNE 28, 1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income/(loss)	$ 140,875	$ (111,812)	$ 121,818
Adjustments to reconcile net income/(loss) to net cash from operating activities:			
Depreciation	406,895	405,859	507,966
Amortization	53,828	74,346	67,624
(Gain)/loss on disposition and write-down of other assets (Notes A and J)	33,664	(71,941)	(57,333)
Other adjustments to income/(loss)	66,668	10,708	(34,576)
(Increase)/decrease in accounts receivable	293,279	(4,211)	42,862
(Increase)/decrease in inventories	317,666	180,761	(272,037)
(Increase)/decrease in prepaid expenses and other current assets	16,447	47,002	(17,862)
Decrease in accounts payable	(31,858)	(209,542)	(49,517)
Increase in taxes (Note C)	15,428	23,609	16,813
Increase/(decrease) in salaries, wages, benefits and related items (Note G)	(69,669)	151,370	31,306
Increase/(decrease) in deferred revenues and customer advances	(20,325)	(123,028)	544

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Increase/(decrease) in accrued restructuring costs (Note E)	(236,857)	127,370	(859,029)
Increase in other current liabilities	40,412	101,724	153,911
Total adjustments	885,578	714,027	(469,328)
Net cash flows from operating activities	1,026,453	602,215	(347,510)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in property, plant and equipment	(395,691)	(431,307)	(365,551)
Proceeds from the disposition of property, plant and equipment (Notes E and J)	87,769	73,083	208,505
Purchases of short-term investments	(3,684,299)	(340,415)	(117,050)
Maturities of short-term investments	2,771,438	163,310	85,924
Investment in other assets	(16,913)	(112,532)	(37,687)
Proceeds from the disposition of other assets (Note J)	32,222	155,971	863,468
Net cash flows from investing activities	(1,205,474)	(491,890)	637,609
Net cash flows from operating and investing activities	(179,021)	110,325	290,099
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt	6,240	--	13,253
Payments to retire debt	(18,080)	(11,241)	(29,336)
Purchase of treasury shares	(354,111)	--	--
Issuance of common and treasury shares, including tax effects	147,468	196,321	151,643
Dividends paid	(35,500)	(35,500)	(35,500)
Net cash flows from financing activities	(253,983)	149,580	100,060
Net increase/(decrease) in cash and cash equivalents	(433,004)	259,905	390,159
Cash and cash equivalents at beginning of year	1,791,754	1,531,849	1,141,690
Cash and cash equivalents at end of year (Note A)	$ 1,358,750	$ 1,791,754	$ 1,531,849

</TABLE>

The accompanying notes are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(dollars in thousands)

	Preferred stock	Common stock	Additional paid-in capital	Retained deficit	Treasury stock	Total stockholders' equity
July 2, 1994	$ 4,000	$ 142,287	$ 3,390,040	$ (256,528)	$ --	$ 3,279,799
Shares issued under stock plans		7,491	143,993			151,484
Restricted stock plans, charge to operations			10,679			10,679
Dividends declared--preferred stock				(35,500)		(35,500)
Net income--1995				121,818		121,818
July 1, 1995	4,000	149,778	3,544,712	(170,210)	--	3,528,280
Shares issued under stock plans		5,726	190,595			196,321
Restricted stock plans, charge to operations			28,917			28,917
Dividends declared--preferred stock				(35,500)		(35,500)
Net loss--1996				(111,812)		(111,812)
June 29, 1996	4,000	155,504	3,764,224	(317,522)	--	3,606,206
PURCHASE OF 10,000,000 SHARES OF TREASURY STOCK					(354,111)	(354,111)
SHARES ISSUED UNDER STOCK PLANS (5,595,619 SHARES ISSUED, OF WHICH 3,867,799 ISSUED FROM TREASURY)		1,728	31,455	(22,694)	136,979	147,468
RESTRICTED STOCK PLANS, CHARGE TO OPERATIONS			40,018			40,018
DIVIDENDS DECLARED--PREFERRED STOCK				(35,500)		(35,500)
NET INCOME--1997				140,875		140,875
JUNE 28, 1997	$ 4,000	$ 157,232	$ 3,835,697	$ (234,841)	$ (217,132)	$ 3,544,956

See Notes K, L and M of Notes to consolidated financial statements.
Cash dividends on common stock have never been paid by the Corporation.

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION The consolidated financial statements of the Corporation include the financial statements of the parent and its majority-owned U.S. and non-U.S. subsidiaries. All significant intercompany accounts and profits have been eliminated. Certain prior years' amounts have been reclassified to conform with the current year presentation.

USE OF ESTIMATES The preparation of the Corporation's financial statements requires management to make estimates and judgments that affect the reported consolidated statements of operations and consolidated balance sheets and related disclosures. Actual results could differ from those estimates.

FISCAL YEAR The fiscal year of the Corporation is the 52/53 week period ending the Saturday nearest the last day of June. The fiscal years ended June 28, 1997, June 29, 1996 and July 1, 1995 included 52 weeks.

TRANSLATION OF FOREIGN CURRENCIES For non-U.S. operations, the U.S. dollar is the functional currency. Monetary assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates. Nonmonetary assets and liabilities such as inventories, property, plant and equipment and deferred revenues and customer advances are translated at historical rates. Income and expense items are translated at average exchange rates prevailing during the year, except that inventories and depreciation charged to operations are translated at historical rates. Exchange gains and losses arising from translation are included in current income.

REVENUE RECOGNITION Revenues from product sales are generally recognized at the time the product is shipped. Provisions for product sales returns and allowances are recorded in the same period as the related revenue. Service revenues are recognized ratably over the contractual period or as the services are performed.

WARRANTY Warranty service revenues are recognized ratably over the warranty period; warranty-related costs are recognized as incurred. The Corporation also provides warranty coverage as a product attribute on certain products. Estimated costs to repair such products are accrued as product cost when the product is shipped.

NET INCOME/(LOSS) APPLICABLE PER COMMON SHARE Per common share amounts are calculated based on the weighted average number of common shares and common share equivalents outstanding during periods of net income, after deducting applicable preferred stock dividends. Common share equivalents are attributable to stock options. Per share amounts are calculated based only on the weighted average number of common shares outstanding during periods of net loss, after deducting applicable preferred stock dividends.

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS The Corporation considers all highly liquid temporary cash investments with maturities of three months or less at date of acquisition to be cash equivalents. Cash equivalents are valued at cost plus accrued interest, which approximates market. Investments with maturities greater than three months mature within six months of the balance sheet date and are classified as short-term investments. Short-term investments are valued at cost plus accrued interest, which approximates market. The Corporation's practice is to hold these investments to maturity.

INVENTORIES Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories are routinely subject to changes in value, resulting from rapid technological change, intense price competition and changes in customer demand patterns. While the Corporation has provided for estimated declines in market value of inventories, no estimate can be made of a range of amounts of loss that are reasonably possible under various competitive conditions.

<TABLE>
<CAPTION>

(in thousands)	JUNE 28, 1997	June 29, 1996

<S> <C> <C>

Raw materials	$ 421,984	$ 536,911
Work-in-process	350,421	439,318
Finished goods	730,740	844,582
Total inventories	$1,503,145	$1,820,811

</TABLE>

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are stated at cost, subject to review of impairment for significant assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

<TABLE>
<CAPTION>

(in thousands)	JUNE 28, 1997	June 29, 1996
<S>	<C>	<C>
Land	$ 193,722	$ 218,659
Buildings	1,381,568	1,384,819
Leasehold improvements	319,264	325,120
Machinery and equipment	2,973,994	3,191,512
Total property, plant and equipment	4,868,548	5,120,110
Less accumulated depreciation	2,764,901	2,897,190
Net property, plant and equipment	$2,103,647	$2,222,920

</TABLE>

Depreciation expense is computed principally on the following bases:

<TABLE>
<CAPTION>

Classification	Depreciation lives and methods
<S>	<C>
Buildings	10 to 33 years (straight-line)
Leasehold improvements	Life of assets or term of lease, whichever is shorter (straight-line)
Machinery and equipment	2 to 10 years (principally accelerated methods)

</TABLE>

When assets are retired, or otherwise disposed of, the assets and related accumulated depreciation are removed from the accounts. Gains or losses resulting from restructuring actions are included in accrued restructuring costs. Other resulting gains and losses are included in income.

OTHER ASSETS Other assets include long-term investments, capitalized software development costs, goodwill, deferred taxes and other intangible assets.

Software development costs are capitalized at the time that technological feasibility is established. These costs are amortized over no more than three years from the date the products are available for general use and are subject to periodic review of net realizable value.

Goodwill and other intangible assets are amortized using the straight-line method over the estimated useful life of the asset, subject to periodic review of impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Long-term investments are subject to periodic review of impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Events and circumstances arising during fiscal 1997 indicated that the carrying value of certain intangible and other assets would not be recoverable. Accordingly, unamortized balances of $40.0 million were written off as a charge to operations.

<TABLE>
<CAPTION>

OTHER (INCOME)/EXPENSE, NET (in thousands)

Year ended	JUNE 28,1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
Interest income	$(116,151)	$ (76,438)	$ (57,497)
Interest expense	86,381	100,418	90,268
Net (gain)/loss on divestments and other assets	(18,048)	(71,941)	7,170
Other (income)/expense, net	$ (47,818)	$ (47,961)	$ 39,941

</TABLE>

NOTE B: GEOGRAPHIC OPERATIONS

INDUSTRY The Corporation operates in one business segment: the design, manufacture, sale and service of networked computer systems.

NON-U.S. OPERATIONS Sales and marketing operations outside the United States are conducted primarily through sales subsidiaries throughout the world; by direct sales from the parent corporation; and through various distributorship

NOTE B: GEOGRAPHIC OPERATIONS (continued)

arrangements and value-added resellers. The Corporation's non-U.S. manufacturing operations include plants in Canada, Europe and Asia-Pacific. The products of these manufacturing plants are sold to the Corporation's sales subsidiaries, the parent corporation or other manufacturing plants for further processing. Intercompany transfers between geographic areas are accounted for at prices which are intended to be representative of unaffiliated party transactions.

Sales to unaffiliated customers outside the United States, including U.S. export sales, were $8.7 billion, $9.6 billion, and $9.0 billion for fiscal 1997, 1996 and 1995, respectively, which represented 67%, 66% and 65%, respectively, of total operating revenues.

<TABLE>
<CAPTION>

(in thousands)

Year ended	June 28, 1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
NET REVENUES			
United States:			
Unaffiliated customer sales	$ 4,396,636	$ 5,126,405	$ 4,816,024
Inter-area transfers	1,467,175	1,381,671	1,426,305
	5,863,811	6,508,076	6,242,329
Europe:			
Unaffiliated customer sales	5,484,767	6,137,495	5,973,188
Inter-area transfers	315,317	703,289	792,277
	5,800,084	6,840,784	6,765,465

HP-000320

Canada, Latin America, Asia-Pacific:			
Unaffiliated customer sales	3,165,429	3,298,875	3,023,850
Inter-area transfers	1,224,294	2,138,800	2,081,764
	4,389,723	5,437,675	5,105,614
Eliminations	(3,006,786)	(4,223,760)	(4,300,346)
Net revenue	$ 13,046,832	$ 14,562,775	$ 13,813,062
INCOME/(LOSS)			
United States	$ 140	$ 45,707	$ (231,180)
Europe	142,280	(137,546)	236,641
Canada, Latin America, Asia-Pacific	35,630	24,312	70,196
Eliminations	(47,818)	(47,961)	39,941
Operating income/(loss)	130,232	(115,488)	115,598
Other (income)/expense, net	(47,818)	(47,961)	39,941
Income/(loss) before income taxes and cumulative effect of change in accounting principle	$ 178,050	$ (67,527)	$ 75,657
ASSETS			
United States	$ 3,752,689	$ 3,739,570	$ 3,924,941
Europe	2,985,397	3,174,933	3,321,429
Canada, Latin America, Asia-Pacific	2,058,492	2,002,943	2,335,236
Corporate assets	2,519,015	2,039,158	1,602,148
Eliminations	(1,622,699)	(881,223)	(1,236,602)
Total assets	$ 9,692,894	$ 10,075,381	$ 9,947,152

</TABLE>

NOTE C: INCOME TAXES

<TABLE>
<CAPTION>

Income/(loss) before income taxes and cumulative effect of change in accounting principle (in thousands)

Year ended	June 28, 1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
U.S.	$ 140	$ 41,204	$(231,180)
Non-U.S	177,910	(108,731)	306,837
Total	$ 178,050	$ (67,527)	$ 75,657

<CAPTION>

Reconciliation of U.S. federal statutory rate to actual tax rate

Year ended	June 28, 1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
U.S. federal statutory tax (benefit) rate	35.0%	(35.0)%	35.0%
Tax benefit of manufacturing operations in(1):			
Ireland	(6.6)	(17.9)	(40.2)
Singapore	(9.4)	(4.9)	(12.6)
Tax impact due to net loss carryforward position:			
U.S.	4.8	(10.2)	106.9
Non-U.S.	11.4	160.2	(93.2)
Non-U.S. tax rates	(14.4)	(24.9)	27.3

HP-000321

Other	0.1	(1.7)	1.0
Effective tax rate	20.9%	65.6%	24.2%

</TABLE>

(1) The income from products manufactured for export by the Corporation's manufacturing subsidiary in Ireland is subject to a 10% tax rate through December 2010. The income from certain products manufactured by the Corporation's manufacturing subsidiary in Singapore was taxed at 15% through December 1995 and is taxed at 10% from January 1996 through December 1998.

<TABLE>
<CAPTION>

Components of provisions for (benefits from) U.S. federal and non-U.S. income taxes (in thousands)

Year ended	June 28, 1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
U.S. federal:			
Current	$ 8,659	$ 6,104	$ --
Deferred	(2,888)	(1,971)	(7,318)
Total	5,771	4,133	(7,318)
Non-U.S.:			
Current	32,477	28,636	48,388
Deferred	(4,144)	9,309	(26,260)
Total	28,333	37,945	22,128
State income taxes	3,071	2,207	3,532
Total income taxes	$ 37,175	$44,285	$ 18,342

</TABLE>

NOTE C: INCOME TAXES (continued)

<TABLE>
<CAPTION>

Significant components of deferred tax assets and liabilities (in thousands)

Year ended	June 28, 1997		June 29, 1996	
	Assets	Liabilities	Assets	Liabilities
<S>	<C>	<C>	<C>	<C>
Inventory-related transactions	$ 120,296	$ 5,656	$ 113,663	$ 7,761
Depreciation	60,317	11,038	59,276	33,474
Deferred warranty revenue	93,611	-	96,943	1,343
Postretirement/postemployment benefits	398,757	5,729	468,662	12,528
Restructuring	166,426	31,538	296,296	20,680
Tax loss carryforwards	1,239,826	-	1,426,648	-
Tax credit carryforwards	202,204	-	192,928	-
Intangible assets	40,083	-	48,465	14,269
Research and engineering	659,733	-	503,826	-
Other	224,711	29,936	222,217	50,274
Gross deferred tax balances	3,205,964	83,897	3,428,924	140,329
Valuation allowance	3,006,425	-	3,179,283	-
Net deferred tax balances	$ 199,539	$ 83,897	$ 249,641	$ 140,329

</TABLE>

The gross deferred tax asset from tax loss carryforwards of $1.2 billion represents $3.4 billion of net operating loss carryforwards on a tax return basis which will generally expire as follows: $66.5 million in 1998, $162.2 million in 1999, $151.2 million in 2000, $144.3 million in 2001, $92.9 million in 2002, $472.0 million in 2007, $577.0 million in 2008, and the remainder thereafter.

Tax credit carryforwards will generally expire as follows: $20.0 million in 2001, $50.0 million in 2002, $70.0 million in 2003, $20.0 million in 2004, and the remainder thereafter.

The reduction in the valuation allowance of $172.9 million is primarily attributed to the reduction in the gross deferred tax balances.

Tax benefit arising from previously unrecognized operating loss carryforwards amounted to approximately $96.0 million and $190.0 million for fiscal 1997 and 1996, respectively.

The Corporation has recorded net deferred tax assets of approximately $116.0 million at June 28, 1997, reflecting primarily the benefit of net operating loss carryforwards in certain countries. Realization is dependent on generating sufficient future taxable income to utilize the assets. Although realization is not assured, management believes it is more likely than not that the assets will be realized.

In fiscal 1997, 1996 and 1995, net income taxes paid were approximately $32.1 million, $18.5 million and $3.0 million, respectively.

In general, the Corporation's practice is to reinvest the earnings of its foreign subsidiaries in those operations, and repatriation of retained earnings is done only when it is advantageous to do so. The accumulated retained earnings for foreign subsidiaries aggregated $2.0 billion at June 28, 1997. Applicable taxes are provided only on amounts planned to be remitted. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings.

NOTE D: CAPITALIZED COMPUTER SOFTWARE DEVELOPMENT COSTS

Unamortized computer software development costs were $64.0 million and $93.4 million at June 28, 1997 and June 29, 1996, respectively. Amortization expense was $39.4 million, $48.4 million and $59.3 million for fiscal 1997, 1996 and 1995, respectively. Accumulated amortization was $75.1 million and $160.8 million at June 28, 1997 and June 29, 1996, respectively.

NOTE E: RESTRUCTURING ACTIONS

Accrued restructuring costs and charges include the cost of involuntary employee separation benefits, facility closures and related costs associated with restructuring actions. Employee separation benefits include severance, wage continuation, notice pay, medical and other benefits. Facility closure and related costs include disposal costs for property, plant and equipment, lease payments and related costs. Restructuring costs were accrued and charged to expense in accordance with approved management plans.

As a result of initiatives to increase sales productivity, further consolidate manufacturing plants and distribution sites, improve service delivery and further reduce overhead in support areas, the Corporation accrued a restructuring charge of $492.0 million in the fourth quarter of fiscal 1996.

The cost of employee separations associated with the fiscal 1996 charge included separation benefits then estimated for approximately 7,000 employees, as well as employee separation benefits incurred in the fourth quarter of fiscal 1996. The majority of the remaining employee separations will come from administrative and overhead functions, located in Europe and the United States. Most other organizations and functions also will be affected by the planned reduction in employees. The fiscal 1996 charge also included costs associated with the closure of an additional 3.5 million square feet of office and manufacturing space, principally in the United States and Europe.

During fiscal 1997, restructuring actions resulted in approximately 2,100 employee separations. The number of involuntary separations was less than originally planned due principally to a higher level of voluntary separations. However, associated cost savings are expected to be offset by an increase in estimated separation costs for certain non-U.S. employees. The total estimated cost of restructuring actions is unchanged. The planned employee separations are expected to be substantially complete in fiscal 1998.

The Corporation's experience in property dispositions has been consistent with the restructuring plan provided for in fiscal 1996. In the past three fiscal years, the Corporation has sold 7.4 million square feet of space and reduced space under lease by 6.9 million square feet.

As the Corporation continues to implement its strategic plan and respond to external market conditions, there can be no assurance that additional restructuring actions will not be required. With regard to the completion of planned restructuring actions, there can be no assurance that the estimated cost of such actions will not change.

<TABLE>
<CAPTION>

Accrued restructuring costs (in thousands)

Year ended	June 28, 1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
Balance, beginning of year	$ 619,416	$ 492,046	$ 1,351,075
Charges to operations:			
Employee separations	-	363,000	-
Facility closures and related costs	-	129,000	-
Total charges to operations	-	492,000	-
Costs incurred:			
Employee separations	119,997	153,025	507,816
Facility closures and related costs	104,683	177,593	323,029
Other	12,177	34,012	28,184
Total costs incurred	236,857	364,630	859,029
Balance, end of year	$ 382,559	$ 619,416	$ 492,046
Cash expenditures:			
Employee separations	$ 135,373	$ 175,839	$ 562,629
Facility closures and related costs, net of proceeds	48,816	61,000	(38,850)
Net cash expenditures	$ 184,189	$ 236,839	$ 523,779
Number of employee separations due to restructuring actions	2,100	2,400	7,400

</TABLE>

NOTE F: DEBT

<TABLE>
<CAPTION>

Long-term debt, exclusive of current maturities (in thousands)

Maturity date

	(Calendar year)	Interest rate	June 28, 1997	June 29, 1996
<S>	<C>	<C>	<C>	<C>
Lease obligations	1998-2002	5.31%-10.95%(1)	$ 5,337	$ 12,034
Notes(2)	1997	7%	--	250,000
Notes(2)	2002	7 1/8%	250,000	250,000
Debentures(2)	2012	8 5/8%	250,000	250,000
Debentures(2)	2023	7 3/4%	250,000	250,000
Unamortized discount and commissions(2)			(12,050)	(13,138)
Other debt obligations			153	235
Total long-term debt, exclusive of current maturities			$743,440	$999,131

</TABLE>

(1) Weighted average interest rate of 7.6% at June 28, 1997 and June 29, 1996.

(2) The Notes and Debentures are not redeemable prior to maturity and are not entitled to any sinking fund. The unamortized discount and commissions relate to these Notes and Debentures.

Principal payments during the next five fiscal years are as follows: 1998 - $255.9 million; 1999 - $0.9 million; 2000 - $0.9 million; 2001 - $2.9 million; 2002 - $0.8 million. During fiscal 1997, $250.0 million of five-year notes due in November 1997 were reclassified from long-term debt to current portion of long-term debt.

In fiscal 1997, 1996 and 1995, interest paid was $85.9 million, $116.2 million and $86.2 million, respectively.

The Corporation had available lines of credit totaling $310.3 million and $315.4 million as of June 28, 1997 and June 29, 1996, respectively. Substantially all of these lines of credit were unused at the end of fiscal 1997 and 1996. Commitment fees on the unused lines of credit were immaterial.

In June 1994, the Corporation entered into a five-year agreement with a major financial institution (i) providing for the transfer and sale by the Corporation to a wholly-owned subsidiary of the Corporation of a designated pool of domestic trade accounts receivable (the "Receivables"), and (ii) allowing the Corporation to sell to a group of investors an undivided ownership interest in the Receivables for proceeds of up to $600.0 million (the "Purchase Limit"). The agreement includes annual commitment fees up to a maximum of 0.2% of the Purchase Limit. During the third quarter of fiscal 1995, the Corporation elected to amend the Purchase Limit under the agreement from $600.0 million to $500.0 million. As of June 28, 1997 and June 29, 1996, no interests in the Receivables had been sold.

In May 1995, Digital Equipment Co. Limited, a wholly-owned subsidiary of the Corporation incorporated in the United Kingdom, entered into a five-year agreement with a major financial institution allowing it to sell an undivided ownership interest in a designated pool of trade accounts receivable (the "UK Receivables") to a group of investors for proceeds of up to approximately $133.8 million (80 million pounds sterling). Commitment fees under the agreement are immaterial. As of June 28, 1997 and June 29, 1996, no interests in the UK Receivables had been sold.

In October 1996, Digital Equipment France S.A.R.L., a wholly-owned subsidiary of the Corporation incorporated in France, renewed for a second one-year period its agreement with a major financial institution allowing it to sell an interest in a designated pool of trade accounts receivable (the "France Receivables") to a group of investors for proceeds of up to approximately $43.1 million (250 million French francs). Commitment fees under the agreement are immaterial. As of June 28, 1997 and June 29, 1996, no interests in the France Receivables had been sold.

NOTE G: POSTRETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS

PENSION PLANS The Corporation and its subsidiaries have defined benefit and defined contribution pension plans covering substantially all employees. The benefits are based on years of service and compensation during the employee's career. Pension cost is based on estimated benefit payment formulas.

It is the Corporation's policy to make tax-deductible contributions to the plans in accordance with plan provisions and local laws. For the U.S. pension plan, there were no contributions in fiscal 1997, 1996 or 1995. The assets of the plans include corporate equity and debt securities, government securities and real estate.

In December 1995, the Board of Directors approved an amendment to the Corporation's U.S. pension plan effective March 1, 1996. Pursuant to the amendment to the plan, the defined pension benefit is based on an account balance comprised of a percentage of pay for each year of service and interest credited on the cumulative balance. Prior to March 1, 1996, the benefit plan was calculated based on a percentage of the employee's earnings during service to the Corporation.

As a result of the amendment, the vested and accumulated benefit obligations of the pension plan more closely approximate the projected benefit obligation. The amendment did not have a material effect on the consolidated statement of operations or on the consolidated balance sheet. There was no cash flow impact from the amendment to the U.S. plan.

The decline in pension cost before curtailment and settlement gains in fiscal 1997 reflects the positive effects of increased returns on invested pension assets and restructuring activities.

The net periodic pension cost for defined contribution pension plans was $33.7 million, $32.4 million and $6.8 million for fiscal 1997, 1996 and 1995, respectively. The Corporation initiated contributions to the U.S. 401(k) plan on July 1, 1995 which resulted in increased costs for the Corporation's defined contribution plans in fiscal 1996.

The measurement dates for all plans were within 90 days of year-end.

<TABLE>
<CAPTION>

Components of net periodic pension cost (in thousands)

Year ended	June 28, 1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
Service cost for benefits earned during the period	$ 131,008	$ 138,069	$ 156,112
Interest cost on projected benefit obligations	217,637	202,385	182,363
Actual return on plan assets	(547,331)	(512,244)	(344,486)
Net amortization and deferral	258,166	256,324	91,251
Net periodic pension cost before curtailment and settlement gains	59,480	84,534	85,240
Curtailment and settlement gains	(1,280)	(5,159)	--
Net periodic pension cost for defined benefit pension plans	$ 58,200	$ 79,375	$ 85,240
Total pension cost for all pension plans	$ 92,822	$ 112,769	$ 95,249

<CAPTION>

Significant actuarial assumptions for pension plans

Year ended	June 28, 1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
U.S. pension plan:			
Discount rate	7.75%	8.00%	7.50%
Expected long-term rate of return on plan assets	9.50%	9.00%	9.00%
Rate of increase in future compensation levels	5.00%	5.00%	5.00%
Non-U.S. pension plans:			
Discount rate	3.50-8.50%	4.00- 9.30%	5.00- 9.50%
Expected long-term rate of return on plan assets	4.50-9.50%	4.00-10.00%	6.00-10.00%
Rate of increase in future compensation levels	2.00-6.50%	2.00- 7.00%	3.00- 7.00%

</TABLE>

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NOTE G: POSTRETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

<TABLE>
<CAPTION>

Funded status of pension plans as of the year-end measurement date (in thousands)

Year ended	June 28, 1997	June 29, 1996
<S>	<C>	<C>
Actuarial present value of benefit obligations:		
Vested benefit obligation	$ (2,695,564)	$ (2,433,935)
Accumulated benefit obligation	$ (2,867,883)	$ (2,566,869)
Projected benefit obligation	$ (3,109,380)	$ (2,875,815)
Plan assets at fair value	3,637,062	3,305,529
Over-funded projected benefit obligation	527,682	429,714
Unrecognized net gain	(1,006,745)	(858,279)
Unrecognized prior service cost	44,747	54,454
Unrecognized net transition asset	(71,167)	(76,232)
Pension liability recognized on the balance sheet	$ (505,483)	$ (450,343)

</TABLE>

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS The Corporation has defined benefit postretirement plans that provide medical and dental benefits for U.S. retirees and their eligible dependents. Substantially all of the Corporation's U.S. employees may become eligible for postretirement benefits if they reach retirement age while working for the Corporation. The majority of the Corporation's non-U.S. subsidiaries do not offer postretirement benefits other than pensions to retirees.

The Corporation's postretirement benefit plans other than pensions are funded as costs are incurred.

Unrecognized net gains in excess of the underlying accumulated postretirement benefits obligation have been generated due to a shift to managed care and declining health care cost trends and employee population. Unrecognized gains or losses are amortized over the average expected service period of plan participants, provided that the unrecognized gains or losses do not exceed a certain percentage of the accumulated postretirement benefits obligation, after which the gains and losses are recognized immediately.

During the second quarter of fiscal 1997, the Corporation amended its U.S. postretirement medical plan to provide full retiree medical benefits only to employees working ten years after age 45. As a result of the amendment, the Corporation recognized a one-time curtailment gain of $52.3 million. The change to the plan had an immaterial cash flow impact to the Corporation.

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NOTE G: POSTRETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

<TABLE>
<CAPTION>

Components of net periodic postretirement benefits cost/(credit) (in thousands)

Year ended	June 28, 1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
Service cost for benefits earned during the period	$ 11,593	$ 10,987	$ 18,455
Interest cost on accumulated postretirement benefits obligations	27,397	30,707	41,279
Actual return on plan assets	--	--	--
Net amortization and deferral	(94,274)	(16,871)	(9,919)
Net periodic postretirement benefits cost before curtailment gains	(55,284)	24,823	49,815
Curtailment gains	(52,706)	(2,230)	(20,741)
Net periodic postretirement benefits cost/(credit)	$(107,990)	$ 22,593	$ 29,074

<CAPTION>

Significant actuarial assumptions for postretirement benefits plans (dollars in thousands)

Year ended	June 28, 1997	June 29, 1996	July 1, 1995
<S>	<C>	<C>	<C>
U.S. plans:			
Discount rate	7.75%	8.00%	7.50%
Health care cost trend rate, current year	5.50%	5.50%	7.00%
Health care cost trend rate, ultimate year	5.00%	5.00%	5.50%
Trend rate decreases to the ultimate rate in the year	2004	2004	2005
Effect of a 1% increase in the trend rate:			
Increase in accumulated postretirement benefits obligation	61,315	$ 64,819	$ 100,617
Increase in net periodic postretirement benefits cost	$ 7,262	$ 7,326	$ 13,645
Non-U.S. plans:			
Discount rate	4.50- 8.50%	5.00- 8.50%	5.00- 8.50%
Health care cost trend rate, current year	0.00-12.00%	4.00-12.00%	4.00- 11.00%
Health care cost trend rate, ultimate year	0.00- 7.00%	4.00- 7.00%	4.00- 7.00%
Trend rates decrease to the ultimate rates in the years	2003	1996-2004	1995- 2006
Effect of a 1% increase in the trend rate:			
Increase in accumulated postretirement benefits obligation	$ 1,094	$ 2,196	$ 8,072
Increase in net periodic postretirement benefits cost	$ 226	$ 407	$ 1,043

</TABLE>

<TABLE>
<CAPTION>

Funded status of postretirement benefits plans as of the year-end measurement date (in thousands)

Year ended	June 28, 1997	June 29, 1996
Accumulated postretirement benefits obligations:		
Retirees	$(267,939)	$(273,908)
Fully eligible plan participants	(23,025)	(6,582)
Other active plan participants	(67,152)	(142,617)
Unfunded accumulated postretirement benefits obligation	(358,116)	(423,107)
Unrecognized net gain	(147,972)	(212,646)
Unrecognized prior service credit	(74,558)	(84,929)
Other postretirement benefits liability recognized on the balance sheet	$(580,646)	$(720,682)

NOTE H: COMMITMENTS, CONTINGENCIES AND RISK FACTORS

LEASE COMMITMENTS Minimum annual rentals under noncancelable leases (which are principally for leased real estate, vehicles and equipment) for the fiscal years listed are as follows:

Fiscal year	(in thousands)
1998	$ 239,094
1999	268,904
2000	124,968
2001	91,163
2002	71,993
Later years	289,794
Total minimum lease payments	$1,085,916

Total rental expense for fiscal 1997, 1996 and 1995 was $199.9 million, $259.3 million and $282.1 million, respectively.

COMMITMENTS The Corporation has entered into agreements with another company to provide the Corporation with services in support of its normal operations. The minimum payments for these agreements approximate $96.0 million in fiscal 1998, $88.0 million in fiscal 1999 and $67.0 million per annum in fiscal years 2000 through 2005.

LITIGATION Several purported class action lawsuits were filed against the Corporation during the fourth quarter of fiscal 1994 alleging violations of the Federal securities laws arising from alleged misrepresentations and omissions in connection with the Corporation's issuance and sale of Series A 8 7/8% Cumulative Preferred Stock (the "Series A Preferred Stock") and the Corporation's financial results for the quarter ended April 2, 1994. During fiscal 1995, the lawsuits were consolidated into three cases, which were pending before the United States District Court for the District of Massachusetts. On

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August 8, 1995, the Massachusetts federal court granted the defendants' motion to dismiss all three cases in their entirety. On May 7, 1996, the United States Court of Appeals for the First Circuit affirmed in part and reversed in part the dismissal of the two cases, and remanded for further proceedings.

The Corporation and Intel Corporation ("Intel") are involved in litigation commenced in the fourth quarter of fiscal 1997 in the U.S. District Courts of Massachusetts and Northern California claiming, respectively, willful infringement by Intel of certain of the Corporation's patents through the manufacture, sale and use of Intel's families of Pentium microprocessors, and breach of contract and various other unfair or unlawful business practices by the Corporation. The two lawsuits are in an early stage, with the parties in the process of answering the respective claims, asserting defenses and filing counterclaims.

RISK FACTORS The broad diversity of the Corporation's products, service offerings, customers and geographic operations mitigate the risk that a severe impact will occur in the near term as a result of changes in its customer base, competition, or composition of its markets.

While the Corporation believes that the materials required for its manufacturing operations are presently available in quantities sufficient to meet demand, the failure of a significant supplier to deliver certain components or technical information on a timely basis or in sufficient quantities could adversely affect the Corporation's future results of operations.

NOTE I: FINANCIAL INSTRUMENTS

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FOREIGN EXCHANGE OPTIONS In the ordinary course of business, the Corporation purchases foreign exchange option contracts to limit potential losses from adverse exchange rate movements on certain anticipated local currency transactions. The contracts are primarily in weighted aggregates of European currencies, Japanese yen and Australian dollars and generally have maturities which do not exceed three months. Premiums to purchase foreign exchange option contracts are amortized over the life of the contract and are included in selling, general and administrative expenses. Unamortized premiums are included in prepaid assets. Gains on option contracts, if any, are included in product and service revenues in the period in which the related local currency revenues are reported.

FOREIGN EXCHANGE FORWARDS In the ordinary course of business, the Corporation enters into foreign exchange forward contracts to mitigate the effect of foreign currency movements on the U.S. dollar value of monetary asset and liability positions of non-U.S. subsidiaries. The contracts are primarily in European currencies, Japanese yen and Australian dollars and generally have maturities which do not exceed three months. Gains and losses on contracts are included in selling, general and administrative expenses in the period in which the exchange rates change.

With respect to foreign exchange option and forward contracts, there were no deferred gains or losses at June 28, 1997. The Corporation does not hold or issue foreign exchange option or forward contracts for trading purposes.

NOTE I: FINANCIAL INSTRUMENTS (continued)

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INTEREST RATE SWAPS During the first quarter of fiscal 1994, the Corporation entered into interest rate swap agreements, with maturities of up to 10 years, to manage its exposure to interest rate movements by effectively converting a portion of its long-term debt from fixed to variable rates. The net face amount of interest rate swaps subject to variable rates as of June 28, 1997 and June 29, 1996 was $250.0 million. These agreements involve the exchange of fixed rate payments for variable rate payments without the effect of leverage and without the exchange of the underlying face amount. Fixed interest rate payments are at a weighted average rate of 5.73%. Variable rate payments are based on six month U.S. dollar LIBOR. Interest rate differentials paid or received under these agreements are recognized over the six month period as adjustments to interest expense. Gains and losses on terminated swap agreements are amortized over the original life of the agreements as adjustments to interest expense. Unamortized deferred losses are included in prepaid assets and totaled $12.9 million as of June 28, 1997. The Corporation does not hold or issue interest rate swap agreements for trading purposes.

FAIR VALUE The carrying amounts reflected in the consolidated balance sheets for cash, cash equivalents, short-term investments, accounts receivable, bank loans, current portion of long-term debt and accounts payable approximate fair value due to the short maturities of these instruments. The fair values for long-term debt and hedging instruments are based on dealer quotes for those instruments. The fair values represent estimates of possible value which may not be realized in the future.

The face amount of hedging instruments does not necessarily represent amounts exchanged by the parties and thus is not a direct measure of the exposure of the Corporation through its use of hedging instruments. The amounts exchanged are calculated on the basis of face amounts and other terms of the hedging instruments, which relate to interest rates, foreign exchange rates or other financial indexes.

The fair value of the Corporation's long-term debt and hedging instruments are subject to change as a result of potential changes in market rates and prices. The potential change in fair value for interest rate sensitive instruments is based on a hypothetical immediate 1% point increase in interest rates across all maturities; the potential loss in fair value for foreign exchange rate sensitive instruments are based on a hypothetical immediate 10% increase in U.S. dollar per local currency exchange rates across all maturities. The Corporation's use of this methodology to quantify the market risk of such instruments should not be construed as an endorsement of its accuracy or the accuracy of the related assumptions. The quantitative information about market risk is necessarily limited because it does not take into account operating transactions, anticipated hedging instruments, pensions and other postretirement benefits. The potential loss for purchased foreign exchange option contracts is limited to the premium paid.

<TABLE>
<CAPTION>

Fair value of financial instruments (in thousands)

<S>	Face amount(1) <C>	Carrying amount(1) <C>	Fair value(1) <C>	Hypothetical loss in fair value(1) (Unaudited) <C>
JUNE 28, 1997				
LONG-TERM DEBT	$ (755,490)	$ (743,440)	$ (717,380)	$ 54,298
HEDGING INSTRUMENTS:				
OPTION CONTRACTS	727,645	4,399	425	(297)
FORWARD CONTRACTS	1,322,236	(17,881)	(10,732)	(126,309)
INTEREST RATE SWAPS	250,000	12,940	(12,285)	(11,313)
June 29, 1996				
Long-term debt	$(1,012,269)	$ (999,131)	$ (979,892)	$ 60,518
Hedging instruments:				
Option contracts	691,151	884	494	(385)
Forward contracts	886,015	(267)	(1,952)	(70,638)
Interest rate swaps	250,000	15,404	(16,540)	(12,509)

</TABLE>

(1) Asset/(liability)

CONCENTRATION OF CREDIT RISK Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of temporary cash and short-term investments, trade receivables and hedging instruments.

The Corporation places its temporary cash and short-term investments with high credit qualified financial institutions and, by policy, limits the amount of credit exposure to any one financial institution.

The Corporation sells a significant portion of its products through third-party resellers and as a result maintains individually significant accounts receivable balances from various major resellers. If the financial condition and operations of these resellers were to deteriorate, the Corporation's operating results could be adversely affected. Total receivables for the ten largest resellers approximated 10% of total accounts receivable at June 28, 1997.

Concentrations of credit risk with respect to other trade receivables are limited due to the large number of customers comprising the Corporation's customer base, and their dispersion across many different industries and geographies. The Corporation performs ongoing credit evaluations of its customers and generally does not require collateral.

The Corporation is exposed to credit-related losses in the event of nonperformance by counterparties to hedging instruments. The counterparties to these contracts are major financial institutions. The Corporation continually monitors its positions and the credit ratings of its counterparties and limits the amount of contracts it enters into with any one party.

NOTE J: INVESTING AND DIVESTING ACTIVITIES

During fiscal 1997, the Corporation sold certain software products and other assets generating $32.2 million of proceeds. The Corporation continues to sell certain of the software products under royalty agreements. Revenue from sales of divested software products represented an immaterial amount of the consolidated operating revenues.

During fiscal 1996, the Corporation sold its learning services business and several small businesses. During fiscal 1995, the Corporation sold portions of its storage business, its relational database business, a software distribution subsidiary, a contract manufacturing business and a semiconductor manufacturing facility. Prior to sale and in total the divested businesses represented approximately 8% of fiscal 1994 consolidated operating revenues and did not have a material effect on the consolidated net loss from operations.

At the end of the second quarter of fiscal 1996, the Corporation sold its learning services business to Welsh, Carson, Anderson & Stowe for proceeds of approximately $80.0 million. Approximately 600 employees transferred with this business.

In addition, during fiscal 1996 the Corporation sold several small businesses for net proceeds of approximately $76.0 million.

At the end of the fourth quarter of fiscal 1995, the Corporation sold its South Queensferry, Scotland semiconductor facility and related assets to a subsidiary of Motorola, Inc. for net proceeds of approximately $128.0 million. Assets sold included approximately $8.0 million of inventory and $127.0 million of net property, plant and equipment. Approximately 530 employees were transferred to Motorola at the time of sale.

At the end of the third quarter of fiscal 1995, the Corporation sold its contract manufacturing business to SCI Systems, Inc. for net proceeds of approximately $75.0 million. Assets sold included approximately $47.0 million of inventory and $20.0 million of net property, plant and equipment, including a manufacturing plant in Augusta, Maine. Approximately 700 employees were transferred to SCI Systems, Inc. at the time of sale.

At the beginning of the second quarter of fiscal 1995, the Corporation sold its magnetic disk drive, tape drive, solid state disk and thin film heads businesses (the "Business") to Quantum Corporation ("Quantum") for an aggregate purchase price of $360.0 million, generating net proceeds of $348.0 million. Assets sold included approximately $180.0 million of inventory and $154.0 million of net property, plant and equipment, including facilities in Shrewsbury, Massachusetts and Penang, Malaysia, as well as the Corporation's interest in Rocky Mountain Magnetics, Inc. Quantum is leasing facilities owned by the Corporation in Colorado Springs, Colorado and leased by the Corporation in Batam, Indonesia. Approximately 3,100 employees were transferred to Quantum upon sale of the Business.

Also during the second quarter of fiscal 1995, the Corporation sold its relational database business and related assets to Oracle Corporation for net proceeds of $107.0 million. Approximately 250 employees were transferred to Oracle Corporation at the time of sale.

The Corporation adopted Statement of Financial Accounting Standards No. 115--Accounting for Certain Investments in Debt and Equity Securities, effective July 3, 1994. In fiscal 1995, the Corporation recorded a one-time unrealized gain of $64.5 million or $.44 per common share related to the value of Ing. Olivetti & C. S.p.A. ("Olivetti") common stock. Subsequently, in the same year, the Corporation sold all of its shares of Olivetti stock for approximately $149.0 million, thereby realizing the gain. The cash flow effect is included in the (gain)/loss on disposition and write-down of other assets in the Statement of cash flows.

NOTE K: STOCK PLANS

STOCK OPTIONS AND AWARDS Under its Equity Plans, the Corporation has awarded restricted stock to certain officers and key employees. Under such Equity Plans and its Restricted Stock Option Plans, the Corporation has granted options to certain officers and key employees to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plans are either subject to repurchase options and restrictions on sales which lapse over an extended time period not exceeding 10 years, or become exercisable ratably over periods of up to five years. At June 28, 1997, 5,515,234 options to purchase shares were exercisable at prices ranging from $19.25 to $153.00.

The excess, if any, of the fair market value of shares on the measurement date over the exercise price is charged to operations each year as the restrictions lapse.

In May 1994, the Board of Directors approved a program to offer employees of the Corporation (other than executive officers of the Corporation) the opportunity to exchange their outstanding stock options for new options to purchase a reduced number of shares of common stock at a per share exercise price equal to the fair market value of the common stock on the date the program was approved (the "Regrant Program"). Under the Regrant Program, outstanding options granted between 1985 and 1993 to purchase up to 11,854,084 shares of common stock with an average exercise price of $59.43 per share could be exchanged for new options to purchase up to 4,554,870 shares with an exercise price of $22.88 per share. The new options vest over four years and have a seven-year term. As of July 3, 1994 options to purchase 5,765,914 shares had been exchanged and cancelled for new options to purchase a total of 2,328,910 shares. During fiscal 1995, an additional 4,476,977 shares were exchanged and canceled for new options to purchase a total of 1,663,430 shares. No further exchanges may occur under this program. No compensation expense was reversed as a result of the Regrant Program. Future expense associated with options canceled, and not replaced by new options under the Regrant Program, will no longer be recognized, resulting in an expense reduction of approximately $31.0 million over fiscal years 1995 to 1998.

<TABLE>
<CAPTION>
Employee stock options and awards

<S>	Shares reserved for future grants <C>	Shares <C>	Average price per share <C>
July 2, 1994	3,037,373	14,934,229	$ 49.59
Additional shares available for grant	2,134,306	--	--
Options granted	(2,781,930)	2,781,930	25.42
Shares awarded	(897,680)	--	--
Options exercised	--	(677,299)	26.58
Options canceled	3,278,129	(3,278,129)	35.73
Options terminated	(1,748,323)	--	--
Regrant program:			
Canceled	4,476,977	(4,476,977)	59.26
Terminated	(2,479,767)	--	--
Regrant	(1,663,430)	1,663,430	22.88
July 1, 1995	3,355,655	10,947,184	$ 41.01
Additional shares available for grant	2,246,664	--	--
Options granted	(3,197,920)	3,197,920	44.11
Shares awarded	(493,635)	--	--
Shares forfeited	86,317	--	--
Options exercised	--	(1,984,600)	29.62
Options canceled	865,196	(865,196)	41.93
Options terminated	(233,542)	--	--

June 29, 1996	2,628,735	11,295,308	$ 43.81
Additional shares available for grant	3,110,086	--	--
Options granted	(3,750,800)	3,750,800	36.30
Shares awarded	(654,105)	--	--
Shares forfeited	151,114	--	--
Options exercised	--	(647,222)	21.01
Options canceled	2,187,519	(2,187,519)	46.88
Options terminated	(767,950)	--	--
June 28, 1997	2,904,599	12,211,367	$ 42.17

</TABLE>

EMPLOYEE STOCK PURCHASE PLANS Under the Corporation's Employee Stock Purchase Plans (ESPP), all U.S. and certain non-U.S. employees may be granted the opportunity to purchase common stock at 85% of market value on the first or last business day of the six-month payment period, whichever is lower. Common stock reserved for future employee purchases aggregated 7,261,138 shares at June 28, 1997. There were 4,445,406 shares issued at an average price of $30.76 per share during the year ended June 28, 1997; 3,341,316 shares issued at an average price of $41.58 per share during the year ended June 29, 1996; and 6,085,154 shares issued at an average price of $21.96 per share during the year ended July 1, 1995. There have been no charges to

income in connection with these Plans other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such Plans, if any, have been credited to additional paid-in capital.

STOCK OPTION PLANS FOR NON-EMPLOYEE DIRECTORS The 1990 Stock Option Plan for Non-Employee Directors provided for a one-time grant of an option to purchase 5,000 shares of the Corporation's common stock to non-employee directors. The exercise price of an option is the fair market value per share of common stock of the Corporation on the date the option is granted. An aggregate of 100,000 shares of common stock were authorized for issuance under the Plan, of which 55,000 are subject to options granted under the plan at an average purchase price of $48.23 per share. The options become exercisable at the rate of 20% per year, with credit given for past service. None of these options had been exercised as of June 28, 1997. No additional options may be granted under this plan subsequent to adoption of the 1995 Stock Option Plan for Non-Employee Directors.

The 1995 Stock Option Plan for Non-Employee Directors, which was approved on November 9, 1995, provides for annual grants to purchase 2,500 shares of the Corporation's common stock to non-employee directors, who are initially elected to office subsequent to January 1, 1995. The plan provides for annual grants to purchase 1,000 shares of the Corporation's common stock to non-employee directors elected to office prior to January 1, 1995. The exercise price of an option is the fair market value per share of common stock of the Corporation on the date the option is granted. An aggregate of 95,000 shares of common stock are authorized for issuance under the Plan, of which 20,000 are subject to options granted under the plan at an average purchase price of $45.14 per share. The options become exercisable ratably over three years. None of these options had been exercised as of June 28, 1997. Effective on the date of the 1997 Annual Meeting of Stockholders, non-employee directors will receive an annual stock option grant to purchase either 6,000 shares or 3,500 shares, depending upon the age of the non-employee director and on the date of commencement of service as a non-employee director.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123--Accounting for Stock-Based Compensation. SFAS No. 123 encourages, but does not require, companies to recognize compensation costs for all stock-based compensation arrangements using a fair value method of accounting. Alternatively, SFAS No. 123 permits a company to continue accounting for these arrangements under Accounting Principles Board Opinion No. 25--Accounting for Stock Issued to Employees, accompanied by footnote disclosure of the pro forma net income and earnings per share had the new rules been applied. The Corporation adopted the alternative approach under SFAS No. 123 as of the first day of fiscal 1997. Accordingly, no compensation expense has been recognized for the Corporation's stock-based compensation plans other than for restricted stock. If the Corporation had elected to recognize

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compensation expense based on the fair value of the options at the date of grant for awards granted in fiscal 1997 and 1996 the Corporation's net income/(loss) and earnings/(loss) per common share would have approximated the pro forma amounts indicated below:

<TABLE>
<CAPTION>

(in thousands, except per share data)

Year ended	June 28, 1997	June 29, 1996
<S>	<C>	<C>
Pro forma net income/(loss) applicable to common stock	$36,198	$(188,040)
Pro forma net income/(loss) applicable per common share	$ 0.23	$ (1.24)

</TABLE>

The weighted-average fair value of each option granted in fiscal 1997 and 1996 is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

<TABLE>
<CAPTION>

	Stock Option Plans		Employee Stock Purchase Plans	
Fiscal year	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
Risk-free interest rate	6.3%	6.2%	5.3%	5.4%
Life in years	3.6	3.6	0.5	0.5
Volatility	35%	35%	35%	35%
Dividend yield	0%	0%	0%	0%

</TABLE>

The weighted average fair value at date of grant for awards granted in fiscal 1997 and 1996 are as follows:

<TABLE>
<CAPTION>

Fiscal year	1997	1996
<S>	<C>	<C>
Stock options	$12.63	$15.37
Stock awards	$39.64	$47.96
ESPP	$ 9.16	$12.62

</TABLE>

The pro forma net income/(loss) for fiscal 1997 and 1996 may not be representative of the pro forma net income/(loss) of future years because the SFAS No. 123 method of accounting for pro forma compensation expense has not been applied to options granted prior to July 2, 1995.

NOTE K: STOCK PLANS (continued)

<TABLE>
<CAPTION>

Stock options outstanding at June 28, 1997	Options outstanding	Options exercisable

Range of exercise prices	Shares outstanding	Weighted average remaining contractual life	Weighted average exercise price	Shares exercisable	Weighted average exercise price
$19.25 to $ 19.99	1,097,657	7.28	$19.65	637,603	$19.62
$20.00 to $ 29.99	2,395,118	5.32	$24.20	1,310,980	$22.91
$30.00 to $ 39.99	3,100,105	9.03	$37.52	108,499	$34.05
$40.00 to $ 49.99	3,230,377	7.70	$43.32	1,520,688	$43.68
$50.00 to $ 59.99	401,454	7.01	$55.90	238,820	$57.21
$60.00 to $ 69.99	33,500	8.61	$62.90	11,055	$62.90
$70.00 to $153.00	2,028,156	2.36	$78.03	1,687,589	$78.28
Total	12,286,367	6.63	$42.21	5,515,234	$46.98

</TABLE>

NOTE L: STOCKHOLDERS' EQUITY

On January 21, 1994, the Corporation filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended, covering the registration of debt securities, preferred stock, depositary shares, and warrants to purchase equity and debt securities, in an aggregate amount of $1.0 billion. In March 1994, the Corporation issued and sold 16 million Depositary Shares under the shelf registration statement, each representing a one-fourth interest in a share of the Corporation's Series A 8 7/8% Cumulative Preferred Stock (the "Series A Preferred Stock"), par value $1.00 per share. Dividends on the Series A Preferred Stock accrue at the annual rate of 8 7/8%, or $35.5 million per year. At June 28, 1997, there were declared and unpaid dividends of $8.9 million. These dividends were paid on July 15, 1997.

The Series A Preferred Stock was offered to the public at $100 per share ($25 per Depositary Share) for a total of $400.0 million, leaving a balance of $600.0 million available for future issuance under the shelf registration. The net proceeds of $387.0 million from the Series A Preferred Stock offering was used for working capital and other general corporate purposes. The Series A Preferred Stock is not convertible into, or exchangeable for, shares of any other class or classes of stock of the Corporation. The Series A Preferred Stock is not redeemable prior to April 1, 1999. On or after April 1, 1999, the Corporation, at its option, may redeem shares of the Series A Preferred Stock, as a whole or in part, for cash at the redemption price per share of $100 ($25 per Depositary Share), plus accrued and unpaid dividends to the redemption date. Upon dissolution, liquidation or the winding up of the affairs of the Corporation, the holders of the Series A Preferred Stock will be entitled to receive $100 per share ($25 per Depositary Share), plus accrued and unpaid dividends, before any distribution to holders of the Corporation's common stock.

The Corporation adopted a Stockholder Rights Plan in December 1989 pursuant to which the Corporation authorized the distribution of one Common Stock Purchase Right ("Right") for each share of outstanding common stock. Under certain conditions, each Right may be exercised for one share of common stock at an exercise price of $400, subject to adjustment. Under circumstances defined in the Plan, the Rights entitle holders to purchase stock having a value of twice the exercise price of the Rights. Until they become exercisable, the Rights are not transferable apart from the common stock. The Rights may be redeemed by the Corporation at any time prior to the occurrence of certain events at $.01 per Right. The Plan will expire on December 21, 1999, unless the Rights are earlier redeemed by the Corporation.

The Corporation purchased on the open market 10 million shares of its common stock at an aggregate purchase price of $354.1 million. All of the acquired shares were held as common stock in treasury, of which 3.9 million shares were subsequently issued to employees under stock plans. The difference between the average acquisition cost of the shares and the proceeds from issuance is charged to retained earnings.

NOTE M: SUBSEQUENT EVENT

In July 1997, the Board of Directors authorized the repurchase, as conditions warrant, of up to 15 million shares of the Corporation's common stock.

SUPPLEMENTARY INFORMATION

<TABLE>
<CAPTION>

QUARTERLY FINANCIAL DATA (unaudited)

(in millions except per share data)(1)	Total operating revenues	Gross profit	Income/ (loss) before income taxes	Net income/ (loss)	Income/ (loss) per common share(2)
<S>	<C>	<C>	<C>	<C>	<C>
FOR THE YEAR ENDED JUNE 28, 1997					
FOURTH QUARTER	$ 3,463	$1,199	$ 141	$ 124	$ .75
THIRD QUARTER	3,314	1,106	62	51	.27
SECOND QUARTER	3,358	1,104	37	32	.15
FIRST QUARTER	2,912	912	(62)	(66)	(.48)
TOTAL YEAR	$13,047	$4,322	$ 178	$ 141	$ .68
For the year ended June 29, 1996					
Fourth quarter	$ 3,719	$1,212	$(432)	$(433)	$(2.87)
Third quarter	3,621	1,252	138	124	.74
Second quarter	3,951	1,288	170	149	.91
First quarter	3,271	1,054	57	48	.26
Total year	$14,563	$4,807	$ (68)	$(112)	$ (.97)

</TABLE>

(1) Amounts may not be additive due to rounding.

(2) The sum of the quarters' earnings per share does not equal the year-to-date earnings per share due to changes in the weighted average share calculations.

OPERATING MANAGEMENT AND STAFF OFFICERS

*Robert B. Palmer
Chairman of the Board,
President and Chief Executive Officer

*Bruce L. Claflin
Senior Vice President
Worldwide Sales and Marketing

Bobby A. F. Choonavala
Vice President; President, Asia-Pacific

Hans W. Dirkmann
Vice President; President, Europe

Michael Gallup
Vice President; President, North America

Graham Long

Vice President, Global Accounts

Luis M. Zuniga
Vice President, Latin America

*Harold D. Copperman
Senior Vice President
DIGITAL Products Division

R.E. Caldwell
Vice President and General Manager,
DIGITAL Semiconductor

Howard Elias
Vice President and General Manager,
NT Systems Business Unit

Donald Z. Harbert
Vice President, Internet Products Business Unit

Ellen J. Lary
Vice President and General Manager,
Storage Products Business Unit

Jesse Lipcon
Vice President and General Manager,
UNIX and OpenVMS Systems Business Unit

John F. McClelland
Vice President, Manufacturing and Distribution

Mahendra R. Patel
Vice President, Systems Engineering

Robert J. Rennick
Vice President and General Manager,
Network Product Business Unit

Richard J. Fishburn
Vice President and Chief Information Officer

Charles B. Holleran
Vice President, Communications

*Ilene B. Jacobs
Vice President, Human Resources

*Vincent J. Mullarkey
Vice President, Finance and Chief Financial Officer

*Alexis Makris
Vice President and Corporate Controller

*Paul J. Milbury
Vice President and Treasurer

*John J. Rando
Senior Vice President
DIGITAL Services Division

Timothy M. Leisman
Vice President and General Manager,
Operations Management Services

Peter A. Mercury
Vice President and General Manager,
Multivendor Customer Services Business Unit

Kannankote S. Srikanth
Vice President and General Manager,
Network and Systems Integration Services

*Thomas C. Siekman
Vice President and General Counsel

Gail S. Mann
Vice President, Assistant General Counsel,
Secretary and Clerk

*William D. Strecker

Vice President, Corporate Strategy and Technology
and Chief Technical Officer

Samuel H. Fuller
Vice President and Chief Scientist

Robert M. Supnik
Vice President, Corporate Research and
Advanced Development

*"Executive Officer" under the Securities Exchange Act of 1934.

DIRECTORS

- --

Robert B. Palmer
Chairman of the Board,
President and Chief Executive Officer,
Digital Equipment Corporation

Vernon R. Alden
Director and Trustee of several organizations,
Former Chairman, The Boston Company, Inc.

Colby H. Chandler
Director of several corporations, Retired Chairman
of the Board and Chief Executive Officer,
Eastman Kodak Company

Arnaud de Vitry
Engineering consultant and Director and
Trustee of several organizations

Frank P. Doyle
Director of several corporations,
Retired Executive Vice President,
General Electric Company

Kathleen F. Feldstein
President of Economics Studies, Inc.
and Director of several corporations

Thomas P. Gerrity
Dean, Wharton School of the University of
Pennsylvania and Director of several corporations

Thomas L. Phillips
Director of several corporations,
Retired Chairman of the Board
and Chief Executive Officer,
Raytheon Company

Delbert C. Staley
Director of several corporations,
Retired Chairman of the Board
and Chief Executive Officer,
NYNEX Corporation

COMMITTEES OF THE BOARD

- --

AUDIT COMMITTEE
Colby H. Chandler, Chairman
Vernon R. Alden
Frank P. Doyle
Kathleen F. Feldstein

COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE
Thomas L. Phillips, Chairman
Thomas P. Gerrity
Delbert C. Staley

NOMINATING COMMITTEE
Arnaud de Vitry, Chairman
Vernon R. Alden
Colby H. Chandler
Thomas L. Phillips

STRATEGIC DIRECTION COMMITTEE
Robert B. Palmer, Chairman
Frank P. Doyle
Thomas P. Gerrity
Delbert C. Staley

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[Photograph of members of Digital's Board of Directors]

Board of Directors, Digital Equipment Corporation (left to right):
VERNON R. ALDEN, KATHLEEN F. FELDSTEIN, ROBERT B. PALMER, COLBY H. CHANDLER, ARNAUD DE VITRY, THOMAS L. PHILLIPS, DELBERT C. STALEY, THOMAS P. GERRITY, FRANK P. DOYLE.

CORPORATE CONSULTING ENGINEERS
- --

<TABLE>
<S> <C>

Andrew Birrell
Corporate Consulting Engineer
Corporate Research and Advanced Development
Corporate Strategy and Technology

Daniel W. Dobberpuhl
Senior Corporate Consulting Engineer
DIGITAL Semiconductor
DIGITAL Products Division

Richard B. Gillett
Corporate Consulting Engineer
UNIX and OpenVMS Systems
DIGITAL Products Division

Richard B. Grove
Corporate Consulting Engineer
UNIX and OpenVMS Systems
DIGITAL Products Division

Richard J. Hollingsworth
Senior Corporate Consulting Engineer
Vice President, Semiconductor Manufacturing and Technology
DIGITAL Products Division

William A. Laing
Corporate Consulting Engineer
Corporate Research and Advanced Development
Corporate Strategy and Technology

Richard F. Lary
Corporate Consulting Engineer
Systems Architecture and Storage Products
DIGITAL Products Division

Jesse Lipcon
Corporate Consulting Engineer
Vice President and General Manager,
UNIX and OpenVMS Systems Business Unit
DIGITAL Products Division

Maurice P. Marks
Senior Corporate Consulting Engineer

Alan G. Nemeth
Corporate Consulting Engineer
UNIX and OpenVMS Systems
DIGITAL Products Division

Mahendra R. Patel
Corporate Consulting Engineer
Vice President, Systems Engineering
DIGITAL Products Division

Jeffrey A. Schriesheim
Corporate Consulting Engineer
Technology Strategy
Corporate Strategy and Technology

Robert E. Stewart
Corporate Consulting Engineer
NT Systems
DIGITAL Products Division

William D. Strecker
Senior Corporate Consulting Engineer
Vice President, Corporate Strategy and Technology
Chief Technical Officer

Robert M. Supnik
Senior Corporate Consulting Engineer
Vice President, Corporate Research and Advanced Development
Corporate Strategy and Technology

Richard T. Witek
Corporate Consulting Engineer
DIGITAL Semiconductor
DIGITAL Products Division

Technical Director, DIGITAL Semiconductor
DIGITAL Products Division

</TABLE>

INVESTOR INFORMATION

INFORMATION ON COMMON STOCK

The Corporation's common stock (Ticker Symbol "DEC") is listed and traded on the:

Chicago Stock Exchange
New York Stock Exchange
Pacific Stock Exchange
Swiss Exchange
German Stock Exchanges of Frankfurt, Munich and Berlin

Common stock price composite:
There were 53,911 shareholders of record as of June 28, 1997. The high and low quarterly sales prices for the past three fiscal years were as follows:

<TABLE>
<CAPTION>

Fiscal quarter	High	Low
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1997		
FOURTH	38 1/2	25
THIRD	38 3/4	27
SECOND	41 1/2	28 3/8
FIRST	46 7/8	30 1/2
1996		
Fourth	63 1/4	41 1/2
Third	76 1/2	50 1/8
Second	65	40 3/4
First	45 7/8	35 1/8
1995		
Fourth	49 1/2	37 3/8
Third	38 7/8	31 1/8
Second	36 5/8	24 7/8
First	29 1/4	18 3/8

</TABLE>

Transfer Agent and Registrar for common stock:
First Chicago Trust Company of New York is the principal stock transfer agent and registrar, and maintains the stockholder accounting records. For questions on change of ownership, lost stock certificates, consolidation of accounts and change of address, please contact:

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, New Jersey 07303-2500
Telephone: (201) 324-0498
(800) 519-3111

For change of address, send a signed and dated note or postcard to First Chicago Trust Company of New York and include the name in which the stock is registered, account number and social security number, as well as the old and new addresses.

Employee investor services:
Digital Equipment Corporation is also a stock transfer agent and registrar, and

maintains employee stockholder accounting records. Inquiries of an administrative nature relative to employee stockholder accounting records and employee purchases should be directed to:

Investor Services
Digital Equipment Corporation
111 Powdermill Road MSO1-1/L12
Maynard, Massachusetts 01754
(978) 493-3703, (978) 493-5213

Eliminate duplicate mailings:
To maintain more than one account, but eliminate duplicate mailings of annual reports to the same address, send a copy of the label from a Corporate mailing to the Investor Services Department (address above), indicating the names you wish to keep on the mailing list and the names you wish to delete.

INVESTOR INFORMATION (continued)

INFORMATION ON PREFERRED STOCK
The Corporation's Depositary Shares, each representing one-fourth of a share of the Corporation's Series A 8 7/8% Cumulative Preferred Stock (the "Preferred Stock") (Ticker Symbol DEC PRA), is listed and traded on the New York Stock Exchange. The Preferred Stock carries an 8 7/8% cumulative annual dividend payable quarterly on January 15, April 15, July 15, and October 15 of each year.

Depositary for the Series A 8 7/8% Cumulative Preferred Stock:
Citibank N.A.
Address correspondence to:
Citicorp Data Distributor
404 Sette Drive
Paramus, New Jersey 07653
(800) 422-2066

STOCKHOLDER COMMUNICATIONS
The Investor Relations Department is available to assist stockholders. Investor inquiries regarding financial information are welcome by letter, telephone or the Internet. The annual report on Form 10-K for the fiscal year ended June 28, 1997, including schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge upon written request to:

Investor Relations
Digital Equipment Corporation
111 Powdermill Road MSO2-3/B17
Maynard, Massachusetts 01754
Telephone: (978) 493-7182
Fax: (978) 493-7633

DIGITAL Shareholder Direct:
Financial results, quarterly and annual reports and news on the Corporation's products and services is available via voice, fax or mail by calling 1-800-998-9332 (U.S., Canada and Latin America only).

DIGITAL on the Internet:
Access to Corporate and financial information is also available through the Corporation's home page on the Internet: http://www.digital.com and the Digital Financial News & Investor Information home page at http://www.digital.com/info/finance.

AUDITORS
Coopers & Lybrand L.L.P.
One Post Office Square
Boston, Massachusetts 02109
Telephone: (617) 478-5000

DIGITAL believes the customer, market and product information in this annual report is accurate as of its publication date. This information is subject to change without notice. DIGITAL is not responsible for any inadvertent errors.

DIGITAL will conduct its business in a manner that conserves the environment. As a company we have a tradition of achievement in protecting the environment and in ensuring the health and safety of our fellow employees. A copy of our Environmental Health and Safety Progress Report is accessible through DIGITAL's EHS homepage: www.digital.com/info/ehs.

The following are trademarks of Digital Equipment Corporation: AllConnect, Alpha, AlphaPowered, AlphaStation, AlphaServer, AltaVista, ClientWORKS, DIGITAL, DIGITAL Logo, DIGITAL UNIX, FX!32, GIGAswitch, HiNote, Millicent, OpenVMS, Powerstorm, Prioris, StorageWorks, TruCluster, VAX, Venturis, and VLM.

The following are third-party trademarks:
Amazon.com is a trademark of Amazon.Com, Inc. Arbor is a registered trademark of Kenan Systems Corporation. CELLworks is a registered trademark of Fastech Integration, Inc. 1st Quote is a trademark of Virtual Telecom, Inc. NetDay is a trademark of NetDay. NetPC is a trademark of Hewlett-Packard Company. NetWare is a registered trademark of Novell, Inc. Oracle, Oracle7, and Oracle8 are trademarks of Oracle Corporation. Pentium Pro and Pentium II are trademarks of Intel Corporation; Intel and Pentium are registered trademarks of Intel Corporation. PointCast is a registered trademark of PointCast Incorporated. Road Runner is a trademark of Time Warner Entertainment Company, L.P. SAP is a trademark of SAP Aktiengesellschaft. Solaris is a registered trademark of Sun Microsystems, Inc. StrongARM is a trademark of Advance RISC Machines Limited. Tandem is a registered trademark of Tandem Computers Incorporated. UNIX is a registered trademark in the United States and other countries, licensed exclusively through X/Open Company, Ltd. Windows95 and Windows CE are trademarks and Windows, Windows NT, BackOffice, and Microsoft are registered trademarks of Microsoft Corporation.

All other trademarks are the property of their respective owners.

Printed in USA EA-B7894-87/97 09 19 200.0

Printed on recycled paper

[Outside Back Cover: Photograph of three business people engaged in a discussion.]

DIGITAL EQUIPMENT CORPORATION

111 Powdermill Road
Maynard, Massachusetts
01754-1418

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EXHIBIT 21

SUBSIDIARIES

The following is a list of the Corporation's consolidated subsidiaries as of June 28, 1997. The Corporation owns, directly or indirectly, 100% of the voting securities of each subsidiary, unless marked with an asterisk.

<TABLE>
<CAPTION>

Name	State or Jurisdiction of Organization
<S>	<C>
AltaVista Internet Software, Inc.	Delaware
AltaVista Internet Software B.V.	Netherlands
Digital Colombia Ltda.	Colombia
Basys Automation Systems, Inc.	Delaware
CASE & CAD Engineering Produktveckling i Stockholm	Sweden
Computer Insurance Company	Rhode Island
DEC Digital Equipment Corporation A.G./S.A.	Switzerland
Digital Computer Taiwan Limited	Taiwan
Digital Equipment AB	Sweden
Digital Equipment Asia Pacific Pte. Ltd.	Singapore
Digital Equipment (BCFI) AB	Sweden
Digital Equipment B.V.	Netherlands
Digital Equipment Betriebliche Altersversorgung G.m.b.H.	Germany
Digital Equipment of Canada Limited/Digital Equipment du Canada Limitee	Canada
Digital Equipment Caribbean, Inc.	Delaware
Digital Equipment Centre Technique (Europe) S.A.R.L.	France
Digital Equipment Chile Limitada	Chile
Digital Equipment China Incorporated	Peoples Republic of China
Digital Equipment China Ltd.	Delaware
Digital Equipment do Brazil Ltda.	Brazil
Digital Equipment Co. Limited	United Kingdom
Digital Equipment Corporation A/S	Norway
Digital Equipment Corporation A/S	Denmark
Digital Equipment Corporation (Australia) Pty. Ltd.	Australia
Digital Equipment Corporation (Consultancy) Limited	States of Jersey
Digital Equipment Corporation (Thailand) Ltd.	Thailand
Digital Equipment Deutschland (Holding) GmbH	Germany
Digital Equipment Corporation Espana, S.A.	Spain
Digital Equipment Osterreich Aktiengesellschaft	Austria
Digital Equipment Corporation International	Massachusetts
Digital Equipment Corporation International (Europe)	Switzerland
Digital Equipment Corporation Japan	Japan
Digital Equipment Corporation OY	Finland
Digital Equipment Corporation (New Zealand) Limited	New Zealand
AOZT Digital Equipment Corporation	Russia
Digital Equipment Corporation Services-Europe S.A./N.V.	Belgium
Digital Equipment (Cyprus) Ltd.	Cyprus
Digital Equipment s.r.o.	Czech Republic
Digital Equipment (DEC) Limited	Israel

</TABLE>

<TABLE>

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Digital Equipment (DEC) Technical Center (Israel) Limited	Israel
Digital Equipment Distribution (Ireland) Limited	Republic of Ireland
Digital Equipment Enterprises Espana, S.A.	Spain
Digital Equipment Filipinas Incorporated	Philippines
Digital Equipment Finance Corporation	Delaware
Digital Equipment France	France
Digital Equipment GmbH	Germany
Digital Equipment Group B.V.	Netherlands
Digital Equipment Gulf W.L.L.	Bahrain
Digital Equipment Hellas S.A.	Greece
Digital Equipment Hong Kong Limited	Hong Kong

Digital Equipment (Hungary) Computing Technology Ltd.	Hungary
*Digital Equipment (India) Ltd.	India
Digital Equipment International B.V.	Netherlands
Digital Equipment International Betriebliche Altersversorgungsgesellschaft G.m.b.H.	Germany
Digital Equipment International G.m.b.H.	Germany
Digital Equipment International Limited	Switzerland
Digital Equipment Ireland Limited	Republic of Ireland
Digital Equipment Korea, Incorporated	Korea
Digital Equipment (Malaysia) Sdn. Bhd.	Malaysia
Digital Equipment Maroc S.A.R.L.	Morocco
Digital Equipment de Mexico, S.A. de C.V.	Mexico
Digital Equipment Portugal, Limitada	Portugal
Digital Equipment PRC Limited	Hong Kong
Digital Equipment Properties Limited	United Kingdom
Digital Equipment Romania s.r.l.	Romania
Digital Equipment S.A./N.V.	Belgium
Digital System Services AB	Sweden
Digital Equipment Slovakia s.r.o.	Slovakia
Digital Equipment SME Limited	United Kingdom
Digital Equipment S.p.a.	Italy
Digital Equipment Scotland Limited	United Kingdom
Digital Equipment Services, Inc.	Delaware
Digital Equipment Singapore (PTE) Limited	Singapore
Digital Equipment Corporation C.I.S. B.V.	Netherlands
Digital Equipment (Thailand) Ltd.	Thailand
Digital Equipment Turkiye A.S.	Turkey
Digital Equipment de Venezuela (D.E.V.) C.A.	Venezuela
Digital Growth, Inc.	Massachusetts
Digital Incorporated	Delaware
Digital International Sales Corporation	Delaware
Digital Realty Corporation	Delaware
Digital Receivables Financing Corporation	Delaware
Digital Sales and Services South Africa (Pty.) Limited	Republic of South Africa
Digital Sociedade de Previdencia Privada	Brazil
Computer Insurance Company Limited	Bermuda
Serrata Consulting Limited	Canada
SIPAC S.p.a.	Italy
Societe Civile Immobiliere (SCI) Parc du Bois Briard	France
*TracePoint Technology, Inc.	Delaware

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EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements (Forms S-8) and related prospectuses of the Digital Equipment Corporation 1985 Restricted Stock Option Plan (No. 33-970), 1990 Equity Plan (No. 33-37631), 1990 Stock Option Plan for Nonemployee Directors (No. 33-37628), 1968 Employee Stock Purchase Plan (No. 333-17049) and 1981 International Employee Stock Purchase Plan (No. 333-17049), the 1995 Equity Plan (No. 33-64223), the 1995 Stock Option Plan for Nonemployee Directors (No. 33-64223), and the Registration Statement on Form S-3 (No. 33-51987) and related prospectuses, of our reports dated July 24, 1997 on our audits of the consolidated financial statements and financial statement schedule of Digital Equipment Corporation as of June 28, 1997 and June 29, 1996, and for each of the three fiscal years in the period ended June 28, 1997, which reports are incorporated by reference or included in this Annual Report on Form 10-K.

/s/Coopers & Lybrand L.L.P.

COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
September 16, 1997

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CONSOLIDATED FINANCIAL STATEMENTS OF DIGITAL EQUIPMENT CORPORATION FOR THE YEAR
ENDED JUNE 28, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH ANNUAL
REPORT ON FORM 10-K FOR THE PERIOD ENDED JUNE 28, 1997.
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